FORMULATION OF THE 1990 FARM BILL

HEARINGS

BEFORE THE

COMMITTEE ON AGRICULTURE
HOUSE OF REPRESENTATIVES

ONE HUNDRED FIRST CONGRESS

FIRST SESSION

JUNE 28, 1989
MEMBERS OF CONGRESS AND GOVERNORS
JULY 12 AND 13, 1989
FARM ORGANIZATIONS
JULY 19, 1989
SECRETARY OF AGRICULTURE CLAYTON YEUTTER

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FORMULATION OF THE 1990 FARM BILL

WEDNESDAY, JUNE 28, 1989

House of Representatives,
Committee on Agriculture,
Washington, DC.

The committee met, pursuant to notice, at 9:35 a.m., in room 1300, Longworth House Office Building, Hon. E (Kika) de la Garza (chairman of the committee) presiding.

Present: Representatives English, Huckaby, Glickman, Stenholm, Volkmer, Hatcher, Tallon, Olin, Penny, Stallings, Jontz, Campbell, Espy, Sarpalius, Long, Lancaster, Madigan, Coleman, Marlenee, Hopkins, Roberts, Gunderson, Lewis, Smith, Combest, Schuette, Grandy, Herger, Holloway, Walsh, and Grant.

Staff present: Bert R. Peña, staff director; Joseph Muldoon, assistant counsel; Charles Hilty, minority staff director; William E. O'Conner, Jr., assistant minority staff director; John E. Hogan, minority counsel; Alice Devine, minority associate counsel; Glenda L. Temple, clerk; Howard Conley, James R. Lyons, James A. Davis, Joe Dugan, and Thomas H. Lederer.

OPENING STATEMENT OF HON. E (KIKA) de la GARZA, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

The Chairman. The committee will be in order. The Chair, at this point, would ask unanimous consent that all members have permission to insert in the record any statement they wish, whether they are here at this time or not. Any prepared statement they submit will be inserted in the record after my opening remarks.

We begin the hearing process today before we begin drafting the 1990 farm bill, and I expect probably this process will take about 1 year as the committee and the subcommittees meet here in Washington and in field hearings throughout the Nation, as best as we can accommodate time and funds for travel.

Before the 1985 act, we went to about 30 States to listen to the people as we started working our consensus. I think I might mention at this time that the field hearing is routine with us as we reach out to the people. There was a European leader, here, a couple of weeks ago, and I had the opportunity to meet with him. We were visiting about the Congress and the legislative process. I mentioned field hearings, and I found that I had to explain what a field hearing was.

In most parliamentary systems in European and Far East countries, all the business of government—the national parliament or legislature or Congress—is done, basically, at the seat of government. Rarely, do they have outside participation because legislation is formulated by the party or the coalition in power through their caucus, and on through the parliament through the majority process. It does not come from the people, such as ours does.

It was intriguing for me to see that we seem to be unique in what we call field hearings. That is, reaching out to the people, going where they live, and visiting their farms. We will be doing that throughout the rest of this year.

During the consideration of the 1985 act, we had a hearing in downtown New York City for the issues encompassing food stamps and nutrition. We had hearings throughout the country in small towns, villages, and the large cities. We covered one end of the country to the other.

So, that is the process that we begin today. We have not only members of our committee, but Members of the House who are not on our committee who are our friends and have the same concerns that we do, and are from rural or agricultural areas. This is an opportunity for us to welcome them, and have them here to begin the process of building consensus, it allows us the benefit of their expertise, their knowledge, and their concerns.

Someone once said—a journey of 1,000 miles begins with the first step. This is the first step for the 1990 act, and hopefully, it will be good throughout the process.

My distinguished colleague from Illinois, Mr. Madigan, let me say that as we did in the 1985 act, it was consensus, irrespective of party. It was a unified effort by the committee. The ranking minority member and I pledge that to the fullest extent, it will be that way this time.

I might mention an example of the degree of bipartisan cooperative efforts that we have on this committee. Yesterday, and I say this with some degree of modesty, we did something quite out of the norm, the House approved our drought relief legislation that went through this committee. It was accepted by the House without a record vote on suspension, requiring basically, two-thirds of those present.

It has possible budget exposure of several hundred millions of dollars. But I take it as a tribute to the members of this committee, a cooperative effort of all the members, all of whom—some more than others—but all of whom worked diligently with our members so that that bill might pass. It was an almost unprecedented degree of cooperation that we have had.

Now, the Secretary of Agriculture is not very happy with our bill. There are some key Senators—I see from some of the wire services—that are not happy with it. But, they should be praising us for the diligence, for the cooperative spirit that we had. Plus, a very distinguished Member of the House, whom I respect tremendously and happens to be a member of the minority, who is very interested in fiscal matters, commended us for being responsible, and for holding to the budget resolution, and to doing what we needed to do.

I would say it was a tribute to the Members that this very responsible leader in fiscal frugality would commend us for our work. Part of that, I think, is why the House helped us move our bill through.

So, we begin with that note, and at this time I would yield to my colleague from Illinois, Mr. Madigan.

[The prepared statements of Chairman de la Garza, Mr. Marlenee, Mr. Combest, and Mr. Schuette follow:]

STATEMENT BY HONORABLE E (KIKA) DE LA GARZA, D-TEXAS
CHAIRMAN, HOUSE COMMITTEE ON AGRICULTURE
COMMITTEE HEARING ON ISSUES RELATED TO THE 1990 FARM BILL
WASHINGTON, DC, JUNE 28, 1989

Today the full Committee on Agriculture begins its review of the issues and concerns that will be considered in the drafting of the 1990 farm bill.

We are about to embark on a legislative process that will last more than a year. It will involve extensive hearings by this Committee and its eight Subcommittees here in Washington and at field hearings in every region of the country, in as many states as possible.

Since I came to Congress in 1965 I have been a participant in developing farm and rural development legislation to fit practically every situation. Over the years I have found that the easiest part of the process -- even during the two years devoted to the 1985 farm bill -- is getting people to agree on the basic goals of farm policy.

I believe most Americans want farm programs that provide farmers a certain amount of income protection. Farming is a risky business -- maybe the riskiest business -- and government has a responsibility to reduce these risks to the extent possible.

I believe most Americans want farm programs that will allow American agricultural products to compete in the world marketplace. Access to foreign markets contributes to American agriculture's prosperity and allows us to share our bountiful harvest with nations less fortunate than ours.

I believe most Americans want farm programs that assure consumers of a safe and adequate supply of food, at reasonable prices, which is produced in as environmentally-sound manner as possible. American agriculture's primary market is the American consumer. It's lifeblood is our Nation's soil and water resources. Both should be protected and neither should ever be taken for granted.

Last, but certainly not least, all Americans -- and all farmers -- want these programs to operate as efficiently and fairly as possible, at the least possible cost to the taxpayer.

I believe we all agree on these basic goals. The question is how do we achieve these goals?

Today's hearing and the hearings that have been and will be scheduled by the full Committee and the Subcommittees in coming months will seek to find the best possible ways we can achieve these goals. It will not be an easy task and it will require teamwork on everybody's part.

In keeping with the spirit of bipartisanship that is characteristic of this Committee, I would like to today pledge my cooperation with my friend and distinguished colleague from Illinois, MR. MADIGAN, the Committee's Ranking Minority Member, and all our Republican colleagues.

We may not always agree on the specifics of an issue, but I want to assure my colleagues -- all my colleagues on both sides -- that this will be a fair and open process.

Today's hearing is an "open mike" session for Members of Congress who do not serve on this Committee. We are pleased to have these colleagues with us today. This afternoon we will also hear from two state governors who serve on the National Governors' Association's agriculture and rural development committee.

The views of our colleagues and these States' governors are a vital contribution at this early stage. We appreciate their willingness to join us today and we look forward to hearing their testimony.

Statement by Hon. Ron Marlenee
House Committee on Agriculture
Wednesday, June 28, 1989

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Mr. Chairman:

Thank you for convening this hearing for the committee to begin taking testimony on recommendations for the new farm legislation we will be required to write in 1990. In many respects, we have certainly made great strides in the agricultural community since the passage of the 1985 farm bill, which came to fruition under the leadership of our very distinguished Chairman, Mr. de la Garza, and with the help and support of most of us who are still here today.

I, for one, am going to urge great caution as we begin to look at the next farm bill. It would be far better to make a miscalculation by being too cautious rather than to make mistakes by trying to totally revamp the relatively successful formulas we crafted in the 1985 Food Security Act. This is not to say that there are not several areas which can be "fine tuned" in order to make the system more equitable and to allow our producers to respond more quickly to signals from the marketplace.

Mr. Chairman, another pitfall I hope we can avoid in the new farm bill is the tendency of Congress to micro-manage the farm programs. Unfortunately, it always seems that the leadership at the Department of Agriculture is out somewhere on a space voyage during periods of time when Departmental action is needed the worst. The 1985 Act created a vast multitude of Secretarial discretion because Congress felt the Department could respond more quickly and in a more reasoned fashion than could the legislative process. And yet, we are contimually confounded by unreasonable logic and undue delay when it comes to getting the Secretary to exercise his discretion. It is no wonder that many of us in Congress tend to lose our patience with the Secretary when he allows himself to be led around by the nose listening to the misguided dronings of his bureaucratic underlings instead of using his own inate logic and responding rapidly with reasonable solutions.

As we begin to consider the new farm bill, Mr. Chairman, I am reminded of last October when you joined me in Montana for the "one shot" elk hunt. You complained -- in your own good-natured way -- that we only gave you one bullet to shoot at that moving elk. Well, I know exactly how you felt last year, because our committee will attempt to fire its one bullet (carrying the name of the 1990 farm bill) at a target which moves continuously and rapidly. I know we will all try our best to resolve all of the problems facing American agriculture in the weeks and months ahead, Mr. Chairman, and I just hope and pray our aim is true!

STATEMENT BY CONGRESSMAN LARRY COMBEST

JUNE 28, 1989

MR. CHAIRMAN, AS WE EMBARK ON THIS FIRST OF WHAT WILL BE MANY DISCUSSIONS OVER THE FUTURE OF OUR DOMESTIC FARM POLICY, I LOOK FORWARD TO WORKING WITH MEMBERS OF THIS COMMITTEE ON THIS IMPORTANT ENDEAVOR. IN ADDITION, I TAKE THIS OPPORTUNITY TO WELCOME OUR GUESTS AND LOOK FORWARD TO HEARING FROM THEM.

AS WE REVIEW OUR PRESENT FARM POLICY, AND WHAT I BELIEVE HAS BEEN A TREMENDOUS SUCCESS WITH THE 1985 FARM BILL, I FEEL WE MUST FIRST LOOK FOR AREAS THAT NEED IMPROVEMENT AND THEN CONCENTRATE ON A WIDER SCOPE OF ISSUES WHICH MUST BE ADDRESSED. WITHOUT A DOUBT, THERE IS AN EVIRONMENTAL ELEMENT THAT SHOULD BE FACED HEAD ON, IN ADDITION TO THE ECONOMIC DEVELOPMENT ASPECT, AND OUR AGRICULTURE EXPORT POLICIES. THE LIST GOES ON AND ON.

HOWEVER, WE WILL HAVE MANY OPPORTUNITIES IN THE COMING MONTHS TO ADDRESS THESE ISSUES. TODAY, I LOOK FORWARD TO THE TESTIMONY FROM OUR DISTINGUISHED PANELIST AND WELCOME THEIR THOUGHTS AND IDEAS ON THE FUTURE OF AGRICULTURE AND RURAL COMMUNITIES.

OPENING STATEMENT BY MR. SCHUETTE

Full Committee Hearing, June 28, 1989

I WANT TO THANK AND COMMEND OUR CHAIRMAN AND MR. MADIGAN FOR GETTING US OFF TO A TIMELY START ON THE LONG ROAD TO THE 1990 FARM BILL. I KNOW THE ROAD WILL BE LONG, I EXPECT IT WILL BE ARDUOUS, IT MAY EVEN BE FRUSTRATING. BUT, I HOPE IN THE END IT WILL LEAD TO A SATISFYING RESULT, A FARM BILL THAT WILL BUILD UPON OUR WORK FROM 1985 AND HELP TAKE AMERICAN AGRICULTURE INTO THE 21ST CENTURY.

"THE FARM BILL" IS A FAVORITE WHIPPING BOY OF THE PRESS AND OF OTHERS WHO POINT TO "THOSE HUGE FARM PAYMENTS" AS ANOTHER FEDERAL GOVERNMENT BOONDOGGLE. NOW I WOULDN'T CLAIM THAT FARM PROGRAMS ARE PERFECT. I DOUBT THEY EVER WILL BE. BUT I'M ALWAYS A BIT PUZZLED BY THOSE WHO RANT AND RAVE ABOUT FARM PROGRAMS. THESE PEOPLE SEEM TO FORGET A FUNDAMENTAL FACT: THE FACT THAT WHEN THEY'VE FINISHED WRITING THEIR PIECE EXCORIATING FARMERS, THEY'RE GOING TO GO EAT LUNCH. AND THEY WON'T HAVE TO WORRY ABOUT HOW TO GET THAT LUNCH, WHETHER FOOD IS AVAILABLE OR WHETHER THEY'LL BE ABLE TO FIND THE INGREDIENTS FOR A HEALTHY, BALANCED MEAL. TOO MANY PEOPLE IN THIS COUNTRY THINK THAT THE FARM PROGRAMS ARE UNNECESSARY BECAUSE THEY GO TO THEIR NEIGHBORHOOD GIANTWAY OR FARMER JACK'S WHEN THEY WANT FOOD. THEY THINK MILK COMES FROM AISLE THREE AND BREAD FROM AISLE FIVE AND BACON FROM THE NICE DISPLAY IN THE MEAT CASE. THEY DON'T REALIZE THAT THERE IS A CONNECTION BETWEEN WHAT FARMERS DO AND WHAT GIANTWAY OFFERS FOR

SALE.

THE BILL WE WRITE SHOULD ABOVE ALL CONTINUE THE GREAT TRADITION OF AMERICAN AGRICULTURE, A SYSTEM THAT HAS SUPPLIED US WITH FOOD FOR OURSELVES AND FOR THE REST OF THE WORLD, FOOD OF SUCH QUANTITY, QUALITY, AND VARIETY THAT AMERICAN SUPERMARKETS HAVE BECOME A TOURIST ATTRACTION FOR VISITORS FROM LESS FORTUNATE COUNTRIES.

WE NEED ALSO TO BUILD ON ANOTHER AMERICAN AGRICULTURAL TRADITION, THAT OF LAND STEWARDSHIP. FAMILY FARMERS ARE AMERICA'S ORIGINAL CONSERVATIONISTS. A GOOD FARMER CARES FOR HIS LAND AND PRESERVES IT FOR HIS CHILDREN AND GRANDCHILDREN. THE FARMER WHO IGNORES THE HEALTH OF HIS SOIL IS A FARMER WHO GETS NO RESPECT IN HIS COMMUNITY. WE NEED TO BUILD ON THAT CONSERVATION TRADITION, AND WE NEED TO FIND A WAY TO ENCOURAGE THE CONTINUATION OF CONSERVATION PRACTICES THAT SAFEGUARD AND PRESERVE NATURAL RESOURCES WHILE RETAINING THE PRODUCTIVITY THAT THE WHOLE WORLD HAS COME TO DEPEND ON. WE NEED TO SUPPORT MORE RESEARCH SO THAT FARMERS CAN BE CONFIDENT THAT THE PRACTICES THEY FOLLOW ARE THE BEST THAT SCIENTIFIC KNOWLEDGE HAS TO OFFER.

FOOD SAFETY IS THE LATEST PHRASE TO STRIKE FEAR INTO THE HEARTS OF MANY OF US. FARMERS ARE FEELING A BIT BELEAGUERED BY ALL THE RECENT FUROR OVER THE SUBJECT. FARMERS HAVE ALWAYS BEEN UNDER THE IMPRESSION THAT THEY ARE FEEDING PEOPLE WITH THE FOOD THEY GROW.

THE PUBLIC NEEDS TO KNOW WHAT WE ON THIS COMMITTEE ALREADY KNOW: THAT AMERICA'S FAMILY FARMERS ARE GUARDIANS OF THE SOIL, THE WATER, AND THE CONSUMERS. I THINK OUR PUBLIC EDUCATION EFFORTS MUST BE IMPROVED, AND PERHAPS THE HEARING PROCESS THAT WE'RE STARTING NOW CAN HELP US IN THAT EFFORT.

I DO WANT TO TOUCH ON A FEW SPECIFIC CROPS, FOR INSTANCE SUGAR BEETS. THE SUGAR PROGRAM HAS TAKEN A FEW KNOCKS LATELY, EVEN MORE THAN USUAL. WE ON THIS COMMITTEE DID NOT APPRECIATE THE INFAMOUS LETTER WRITTEN BY THE UNITED STATES TRADE REPRESENTATIVE WHICH INFORMED US THAT THIS COUNTRY IS SEEKING TO ELIMINATE THE SUGAR PROGRAM. NOW I AM A SUPPORTER OF GATT, I CERTAINLY BELIEVE IN THE VALUE OF THESE INTERNATIONAL TRADE NEGOTIATIONS. BUT THE LAST THING WE SHOULD DO IS TO ALLOW THE OUTCOME, OR ANTICIPATED OUTCOME, OF GATT NEGOTIATIONS TO DICATE THE TERMS OF THE FARM BILL WE'RE STARTING ON NOW. AMERICAN FARM POLICY MUST BE MADE IN AMERICA, NOT IN GENEVA.

FINALLY, YOU ALL KNOW THAT I CAN'T GET THROUGH A HEARING AT THIS COMMITTEE WITHOUT MENTIONING DRY EDIBLE BEANS. I'D ALSO LIKE TO MENTION CHERRIES AND POTATOES AND SPECIALTY CROPS OF ALL KINDS. THESE CROPS TEND TO BE THE FORGOTTEN CHILDREN OF THE FARM BILL. NOW I'M NOT ASKING THAT NON-PROGRAM CROPS BECOME PROGRAM; FAR FROM IT. I JUST WANT US ALL TO REMEMBER, WHEN WE'RE WRITING SECTIONS ON CONSERVATION COMPLIANCE AND WATER QUALITY AND PESTICIDE USE AND

CROP INSURANCE, THAT WE HAVE A TREMENDOUS VARIETY OF AGRICULTURAL CROPS AND ALSO CLIMATIC CONDITIONS IN THIS COUNTRY, AND WE HAVE TO MAINTAIN ENOUGH FLEXIBILITY TO ENSURE THAT WE DON'T MAKE IT HARDER OR MORE EXPENSIVE TO RAISE THESE SPECIALTY CROPS. IT'S THE DRY BEANS AND THE CHERRIES THAT PROVIDE THE VARIETY CONSUMERS SO TREASURE IN THEIR SUPERMARKETS, AND I WANT THAT VARIETY TO KEEP ON DAZZLING AMERICAN CONSUMERS. I WANT OUR FOOD SUPPLY TO CONTINUE TO BE THE ENVY OF THE WORLD

I LOOK FORWARD TO WORKING WITH MY COLLEAGUES ON THIS COMMITTEE AND WITH THE FARMERS AND OTHER INTERESTED PARTIES OF THIS NATION TO WRITE A FARM BILL THAT WE CAN NOT ONLY LIVE WITH, BUT ONE THAT WILL ALLOW OUR FAMILY FARMERS AND THE RURAL TOWNS TO PROSPER.

OPENING STATEMENT OF HON. EDWARD R. MADIGAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS

Mr. **Madigan**. Thank you, Mr. Chairman. May I say, at the outset, that the chairman of every committee sets the tone, and the bipartisan cooperation that exists here, I think, exists because it is a reflection of the tone that you set as the chairman of this committee treating all of our members as equals, and giving every member the opportunity to properly represent his or her constituency on the matters that are before the committee.

I think every member of the minority would join me, this morning, in just expressing our appreciation to you for the even-handedness and fair-mindedness, of which you conducted the operation of this committee.

With regard to the criticism that was levied at us yesterday, I would just say, briefly, that some people have reached the point where they just need your kind of way to propose agricultural bills, even when they save money. The one that we passed yesterday, according to the Congressional Budget Office, saves $39 million, based on the most current estimates. Now, we are being criticized when we save money.

So, I think we just have to accept the fact that we are going to be criticized from time to time for everything that we do, but I do not think there is any criticism of this committee coming from the farmers and ranchers across the United States who are affected by the actions of this committee, especially those that we took yesterday afternoon on the floor of the House.

May I, at this point, note, Mr. Chairman, that our first witness, this morning, is the Honorable Lynn Martin, from my home State of Illinois, who has always gone out of her way to be supportive of farmers and ranchers and the actions of this committee, and I personally want to make a point of extending my welcome to her, this morning, and express my appreciation for the way that she has stood with us, shoulder to shoulder, during the years that you and I have been on the committee.

I thank you very much, Mr. Chairman.

The **Chairman**. Thank you very much. We will proceed with our member guests who are here. In between, the Chair will recognize members of the committee who may wish to make statements, and the permission has already been granted for any statement you might wish to submit for the record. But, we will go with our guests, and then the Chair will be happy to recognize members for statements. Of course, with the availability of questions, I am sure our colleagues would be happy to answer.

So, we welcome the two who are here, Mr. Lehman, our distinguished colleague from California, and our distinguished colleague from Illinois, Mrs. Martin, and we will be happy to hear from you at this time.

STATEMENT OF HON. LYNN MARTIN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS

Mrs. **Martin**. Mr. Chairman, I thank you and the ranking minority member of the committee, my colleague from Illinois, Mr. Madigan, for the opportunity to appear before the Committee on

Agriculture today as the committee begins its work on the 1990 farm bill. As a Member of Congress for the past 8½ years, I've had the privilege to vote on provisions of two earlier farm bills and numerous small corrections to those pieces of legislation. As a Member who does not serve on the Committee on Agriculture, I deeply appreciate your invitation to present the views of the agricultural producers of not just the 16th District of Illinois, but of many farmers throughout the State of Illinois.

I especially appreciate the fact that the expertise of this committee helps all of us who represent agriculture, and represent consumers. Too often in the past, we have viewed those as two opposing groups. The fact of the matter is, of course, that the success of American agriculture has been great news for the American consumer. No one eats better or more cheaply than Americans, and I think that is certainly due to the work of the American farmer and to the cooperation of the Congress in making sure that agriculture can continue that high productivity.

Many of Illinois' agricultural producers have indicated that the 1985 farm bill, with its various corrections, is working well. Their remarks are best summed up by the saying, "If it ain't broke, don't fix it." Of course, from time to time, minor corrections are necessary. As most of us have seen, the Soviets try to stick with their infamous "5-year plans"—plans which almost always fail because they remain inflexible to year by year changes. The Committee on Agriculture has made well thought-out corrections to the 1985 farm bill, and I believe that the agricultural community as a whole is pleased with the way in which the 1985 farm bill has worked.

I applaud the committee for staying away in the past from mandatory supply controls that have been suggested by Members of both the House and the other body. We cannot, and should not, tell America's farmers what they should grow, how much they should grow, and how much they can sell their crops for. A radical system of marketing quotas and acreage allotments would be similar to the Soviet system that works so poorly. Mandatory supply controls will make America's farmers serfs to the Federal Government, dependent on the whims of those who do not farm or know and love the soil.

As you hear from other witnesses today, the word I believe you will hear again and again will be the word "flexibility." In talking to farmers throughout Illinois, many mention the need for flexibility in how set-aside acres are computed. They argue strongly for basing set-aside acres on the total cropland that they cultivate, instead of basing set-aside acres on individual crop acres. This is probably one of the most important changes that farmers would like to see within the 1990 farm bill.

I would encourage the committee to listen carefully to those arguments during the field hearings, which you, Mr. Chairman, said are so valuable and get so much approbation from the agricultural community.

Last year's drought brought home to many of America's farmers the realization that Congress, although in many cases benevolent, cannot continue to ride to the rescue at every change in the market or even change in the weather. Many of the farmers with whom I have spoken have expressed renewed interest in the Federal Crop Insurance Program, and the benefits of participating in that program. I, again, think the round of hearings held earlier this year by the Commission for the Improvement of the Crop Insurance Program showed that America's farmers have seen the writing on the proverbial wall, and will take the necessary measures to protect themselves from the vagaries of the weather.

Confusion still exists about payment limitations, especially in the area of whether a husband and wife engaged in farming are being considered as one person or as separate persons with respect to the maximum program payment limitation provisions. As you know, many farm couples have maintained separate farming operations before and after their marriage, but, in some cases, may still be considered as one person. I am aware that the Committee on Agriculture has heard the arguments regarding this problem before, and I am certain you will do your best to address the problem in a manner that is fair to those producers, but does not allow loopholes to occur that could be used by the unscrupulous few.

One of the biggest issues that faces agricultural producers as well as Americans in general is the issue of ground water pollution. That can be attributed to agricultural run-off, partially, and the use of pesticides, fungicides, and herbicides. As this issue becomes more newsworthy, I fear that our farmers will end up bearing the brunt of the blame. Our best course may be for the agricultural community, which has already recognized this problem, to address the problem as quickly as possible, and to offer solutions that are workable, but will not damage our productivity or quality of product. I feel it is far better that those of us with agricultural concerns address this problem head-on, or we will face, ultimately, an American public that will force us to legislate a solution that may not benefit either the public or further the cause of agriculture. We know that most farmers are environmentally concerned, but they face being painted in the public's perception as environmentally insensitive if they do not address this growing problem.

As you know, I represent a district that has many corn growers. In a recent "Dear Colleague" that I sent to Members of the House of Representatives, I explained the importance of the Sugar Program to the typical corn grower. As the committee reviews the Sugar Program during the debate on the 1990 farm bill, I hope members of the committee will keep in mind the connection between the Sugar Program and corn producers, and the support that America's corn producers have traditionally given to that program.

With your permission, Mr. Chairman, I would like to enclose a copy of that "Dear Colleague" in the record of this hearing.

There are other issues that will be brought before you later today by my colleagues that will also need to be addressed by the committee during these hearings. Although the American farmer may not always realize it, there are probably no better friends of agriculture than the members of this committee and Members of Congress that represent rural districts. I am certain that the members of this committee will judiciously review the issues that are brought before them during consideration of the 1990 farm bill and will continue their support for America's farmers.

Mr. Chairman, as I mentioned in my opening remarks, I would like to thank you, Mr. Madigan, and the other members of the committee for the invitation to appear before the committee today. I have great faith that your work here in the committee rooms of Congress will provide America's farmers with a quality product, just as their work in the rural fields of America will provide America's families with quality products and produce.

[The letter follows:]

LYNN MARTIN

Congress of the United States
House of Representatives
Washington, DC 20515

June 26, 1989

THE SUGAR PROGRAM AND U.S. FARMERS

Dear Colleague:

Opponents commonly claim that the U.S. sugar program only serves a few thousand large-scale beet and cane farmers. That ignores the program's most important benefit - the defense it provides against heavily subsidized foreign sugar exports - which is vitally important to the U.S. corn economy.

It's no secret that in recent years, corn prices have been desperately low, and corn farmers have been hard-pressed to turn a profit. It's less well known that studies show the demand for corn sweeteners contributing 25 cents per bushel to the price of corn. That boost affects all corn farmers, not just those whose corn goes directly into corn sweeteners.

For a typical corn farmer, planting 350 acres and producing 120 bushels per acre*, the price boost from corn sweetener demand increases farm income by $10,500 per year. In a lean year, that can be the difference between making a profit or taking a loss.

In the 239 counties that harvest at least 10 million bushels of corn or more per year, the price boost from corn sweetener demand pumps an additional $2.5 million to as much as $13 million into the county economy.

Without the sugar program for defense, abusive foreign subsidies and sugar dumping would undermine the U.S. sugar producers and the U.S. corn sweetener industry. As corn sweetener use declined, farmers would lose a critical market. At the same time cane and beet acreage would shift to corn and soybeans, further depressing prices for feed grains and costing the U.S. Depressed corn prices would also cost the U.S. Treasury more for feed grain prices supports. One study has shown that U.S. corn producers and the U.S. Treasury would have lost $11.5 billion from 1982 to 1985 in the absence of the U.S. sugar program.

The sugar program is vitally important to 1.3 million corn producers and to rural economies across the Corn Belt. Until we get international sugar policy reforms, we must maintain the U.S. sugar program.

Sincerely,

LYNN MARTIN
Member of Congress

The CHAIRMAN. Thank you very much. Are there any questions of our colleague, Mrs. Martin? Mr. Volkmer.

Mr. VOLKMER. I have just one question. The 1985 farm bill provided for the crops that are important to the Midwest—the corn, wheat, and feed grains—a decline in the target price starting 2 years ago, and continuing until next year.

Do you have any position or do you look to the idea of whether—when we go on to the next 5 years—should that continue or should we try to stabilize that target price, or should we bring it down to where there is no target price?

Mrs. MARTIN. Like you, I too have heard the arguments. You gave, in effect, three alternatives, and I look forward to seeing the results of the 1990 farm bill hearings. The farm bill represents, I think, the best we could get for the interests of the midwestern farmer, and we certainly are going to want to continue that.

Now, as we look at those target prices, and at the phasing down of those target prices, I think we are going to have to see what works best, not just for the midwestern farmer, but for farmers throughout the country. What I still believe is working for the American consumer are the successful farm programs. To have a farm program that ultimately hurts the farmer, will ultimately hurt the consumer.

Mr. VOLKMER. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Olin.

Mr. OLIN. May I ask you a quick question?

Mrs. MARTIN. Certainly, my former neighbor.

Mr. OLIN. It is nice to see you, again. I really appreciated your testimony, and let me just ask you one question.

If I took your testimony, correctly, you are saying, I think, what many of us feel is that the 1990 farm bill needs to continue the general philosophy of the 1985 bill with regard to helping farmers to be market-oriented, and that you seem to feel that the 1985 bill has been, in general, quite successful.

Do I take it that you—as a broad statement—would continue the direction that we started to go in the 1985 bill?

Mrs. MARTIN. You said it more simply than I did, and you are absolutely correct. I believe that the direction that this committee used in the 1985 bill has been beneficial to virtually everyone, both in and out of the agricultural community, and to change that would strike me as absolute foolishness.

Mr. OLIN. Well, I certainly appreciate that remark, and I hope that we end up continuing the momentum that we started in 1985, and not try to reinvent the wheel where that is not necessary.

Mrs. MARTIN. I think that your statement is valid not just for the American consumer, but also in terms of the export market and in terms of the 21st century for American agriculture.

Mr. OLIN. I thank the gentlewoman.

The CHAIRMAN. We thank you very much for being with us. We expect your cooperation, and we would love to work with you in the process.

Mrs. MARTIN. Thank you, Mr. Chairman.

The CHAIRMAN. Our distinguished colleague from California, Mr. Lehman, we will be happy to hear from you at this time.

STATEMENT OF HON. RICHARD H. LEHMAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. LEHMAN. Thank you very much, Mr. Chairman. I wish to echo the gentlelady from Illinois' comments with regard to the high esteem with which this committee is held in agricultural areas. You are very popular because you did a very good job, last time.

I appreciate this opportunity to be here, this morning, to talk about some specific items I would like to see enhanced in the farm bill. As you know, I represent the San Joaquin Valley in California, one of the richest agricultural areas in the world.

The concern that many of us who represent agricultural regions have is, will the next farm bill be as successful as our last one? After 5 years of farm policy that has largely accomplished what it intended, it will be our responsibility to develop a policy that will continue that job of farm recovery.

It is quite likely that the 1990 farm bill will ultimately determine the course of our farm policy through the end of this century. However, some of the policies developed in the 1985 farm bill will no longer be effective tools for rebuilding our farm economy, while others are more important than ever for continued growth. A goal of this farm bill must be to ensure agriculture the flexibility and support it needs to meet global challenges.

Our place in the international marketplace will, in large part, be defined by our bargaining ability in GATT negotiations. Our GATT negotiators will be in a better position to negotiate if we can continue to reduce the overall cost of farm programs.

However, the challenge is to lower costs without removing the safety net of price and income supports. But, in order for agriculture to avoid the untenable position that it faced in the early 1980's as a result of changing economics, U.S. farmers must have the flexibility to respond to changes in market conditions created by GATT agreements.

Another issue that I think should be in the process of shaping farm policy, and one that I know you have personally been involved in, Mr. Chairman, is the issue of farm exports. Excellent gains have been made since 1985. Though we have been plagued with high trade deficits, agricultural exports have consistently remained high, and are often the only bright spot in the overall trade picture. For many commodities, these gains have only been made possible through the use of the Targeted Export Assistance Program, or TEA funds.

The TEA Program is especially important to those crops for which there is no other tool to combat nontariff barriers and subsidies that virtually shut them out of competition in foreign markets. Although the program is available to many different commodities, the program has been successful in promoting California's specialty crops in markets in the Pacific Rim countries, the European Community, and other traditionally hard-to-enter markets.

Last year, a General Accounting Office report criticized the program's operation, which led to calls from many to abandon the program. After release of that report, the Department made changes in regulations regarding funding justification and follow-up. The

Department's willingness to clean its own house, by making the program more efficient and effective, confirms that there is no need to handcuff the program by taking away its flexibility. I urge the committee to renew its commitment to revitalizing agriculture through improved trade by reauthorizing the TEA Program with its current direction.

Mr. Chairman, food safety is another issue which this committee should take the lead where its jurisdiction allows. Recently, all of agriculture has seen the effects of the consumer panicked by perceptions that the food we eat is a serious and constant threat to health and safety. No farm policy can afford to ignore the lesson that has been learned. Every step must be taken to renew the consumer's confidence in the safety of this Nation's food supply.

While it is difficult in the context of legislation to mandate consumer education or how as an industry we should handle some of the misperceptions created by misleading information, it should be remembered the incredible impact neglecting or ignoring this issue can have on agriculture and the consumer.

It is clear that, regardless of our ability to produce, consumer confidence is a significant aspect of agriculture. It is imperative that not only domestically produced goods are certified safe, but so too must imported food products. The American consumer has not shown a willingness or an aptitude to distinguish U.S. from foreign agricultural products as their counterparts in Europe seemed to have.

The 1990 farm bill, I think, could take some important steps in that direction. The bill should also continue to recognize the importance of marketing orders. Since 1937, marketing orders have given stable prices and orderly marketing of their crops to growers and provide consumers with reliable supplies of premium quality produce. However, a problem that has kept the orders from running smoothly is the Department's inability to review and prepare regulation changes necessary to implement the marketing order programs. It is imperative that the Department make changes in a timely manner and assert its authority in enforcing the programs.

There are a number of comments, Mr. Chairman, that I would like to make regarding specific crops and programs, however, in the interest of time, I would like to just touch upon some facts that are important to understanding my State's contribution to the Nation's farm economy.

The diversified farming areas of California produce over 250 different crops. It leads the Nation in more than 50 of those commodities and produces more than 50 percent of the supply for 18 additional commodities. Noting that most of these crops are specialty or nonprogram crops is critical to understanding the value of the programs I have just discussed, to both the economy of my State and to the Nation, as well.

Mr. Chairman, the development and implementation of the next farm bill has great importance to the farmers of California. With over $3 billion in agricultural exports, California's ag economy is an important contribution to the Nation's agricultural picture. It is my sincere desire to assist you and members of this committee in writing a farm policy that would put the United States in a position to negotiate effectively at GATT, continue to compete for our share of foreign markets, and regain the consumer's confidence in the safety of our food supply.

I thank you very much, and I would be glad to answer any questions.

[The prepared statement of Mr. Lehman appears at the conclusion of the hearing.]

The CHAIRMAN. Any questions of our colleague?

[No response.]

The CHAIRMAN. If not—Mr. Stenholm.

Mr. STENHOLM. It is certainly the intent of this committee, in particular the Subcommittee on Livestock, Dairy, and Poultry, to look in-depth at the question of food safety as we develop the 1990 farm bill. I think you are on target in mentioning the importance of consumer confidence. The best farm bill in the world will not be worth a nickel unless we address food safety concerns in a forthright way.

We have the best food safety system the world has ever known, but we have to make it better, and we are going to be trying to do that, and look forward to working with you on that, Richard.

Mr. LEHMAN. I certainly agree, and I appreciate your comments.

The CHAIRMAN. Thank you very much, and always, your cooperation and support on the floor and with your colleagues is deeply appreciated, Mr. Lehman.

We have the vote on the journal. Our next witness is our distinguished colleague from Wisconsin, Mr. Roth. Would you like to have 5 minutes to give us your testimony, and then we can all go to the floor?

STATEMENT OF HON. TOBY ROTH, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF WISCONSIN

Mr. ROTH. Mr. Chairman, I would be happy to do that. I will try to abbreviate it to 5 minutes in order to accommodate this committee.

The CHAIRMAN. We can go and do the vote and come back, or which ever way you would like to do it.

Mr. ROTH. Why don't we do it this way? We will probably utilize our time best that way.

The CHAIRMAN. We will be happy to hear from you at this time.

Mr. ROTH. Thank you, Mr. Chairman. I will try to be very brief. I want this committee and you, Mr. Chairman, to know how grateful I am to be able to appear before this committee. June, after all, is dairy month, and basically I would like to make three points. One, the reform of the milk marketing order system is something that we absolutely have to look at. Second, the continuation of the programs to encourage our farm exports, like we have, of course, done in the 1985 farm bill, and that is one of the reasons that our farm exports are up from $26 billion to $35 billion last year.

It is going to be, according to the Departments of Agriculture and Commerce, up to something like $37 to $38 billion this year, and that is making tremendous strides. I think this committee can take a lot of credit for that. And then, maintaining a market-orientated dairy system is the last issue.

Recently, I held a meeting back in Wisconsin with my ag advisors, and by far, the most important issue that they feel that this committee and we, as a Congress, have to address is the milk marketing order system. We cannot continue with the milk marketing orders as they are today because it is just not fair to the traditional dairy areas in our country. For example, in Wisconsin and Minnesota, we get as much—Mr. Chairman and you members realize—as $3 per hundredweight less for milk than they do, for example, in Florida and other parts of the country. That, simply, is not fair.

Now, when the milk marketing orders were started in 1933, I think they made a lot of sense at that time, but everything has changed in dairy since then, except the milk marketing order. If we are going to be fair to the traditional dairy-producing areas in our country, then we have to take a look at this and change the milk marketing order.

This system of calculating the price and using as its focal point Eau Claire, Wisconsin, and the further you get away from Eau Claire, the more money you get for your milk, may have been great in 1933, but we did not have the technology to easily transport milk. But, that is certainly not the case today.

Also, the argument that was made at one time, that it was much more difficult to produce dairy in the southern part of our country because it costs more, I think you have to stretch your imagination to use that particular argument today.

Now, our idea is not to bring the price of milk down in any one place in this country. All we are saying is that we would like to have this formula changed so that we can have some equality in the dollars that dairy farmers get, for example, in Wisconsin, with other parts of the country. Rather than having one milk marketing order, I would like to have this committee consider, maybe, six or eight regional centers, and if we did that, we would have more equity in the system. That is precisely why I introduced the legislation that I did to look at this particular issue.

Mr. Chairman, if we would address the milk marketing orders, and if this committee continues its fine record in promoting exports and, if we continue with a market-orientated dairy price-support program, then I think, Mr. Chairman, this committee and we, as a Congress, will have done a yeoman's task.

The Wisconsin farmer—if I can just say a word for the Wisconsin farmer—has been through tough times in the 1980's like all of your farmers have in this country. We are not asking for anything special. All we are asking is that we have a little more equity in the formulas that were established more than 55 years ago.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Roth appears at the conclusion of the hearing.]

The **CHAIRMAN**. Thank you very much. Any questions for our colleague?

Mr. **OLIN**. Mr. Chairman.

The **CHAIRMAN**. Mr. Olin.

Mr. **OLIN**. Just one comment. I have great sympathy and understanding for the small dairy farmer, be that dairy farmer in Wisconsin, Vermont, or Virginia or wherever. I certainly would accept the gentleman's suggestion that we review the milk marketing order scheme, not for the purpose of creating a revolution, but to fine-tune it to the point where anything that is unfair about it can be looked at and rectified.

I would give the gentleman some encouragement that, from my point of view, having been interested in this subject, that I would expect that our subcommittee will spend quite a bit of time on that issue.

Mr. ROTH. I appreciate the gentleman's remarks. They are most encouraging. I appreciate it, very much. After the Michael-Olin amendment, I thought that I would not hear that, but I appreciate you saying that. You are certainly a man with an open mind, and I know you have the right interest at heart. It, again, proves the old Russian proverb that two mountains can never come together, but two men always can.

Mr. OLIN. I thank the gentleman from Wisconsin. We will recognize that it is our intention—at least, from my point of view, and I know the others share that—to come to some meeting of the minds on the principal dairy issues.

Mr. ROTH. Thank you very much.

Mr. OLIN. That ought to be possible.

Mr. ROTH. I appreciate that very much.

The CHAIRMAN. Mr. Marlenee.

Mr. MARLENEE. Mr. Chairman, because of my great respect and admiration for my colleague from Wisconsin and his knowledge of agriculture, particularly dairy, it would be a disservice to allow him to escape without interrogation, but I know we have a vote on.

Would you support a change that would allow milk control boards within the States?

Mr. ROTH. Well, I would have to see what the specific language looked like. I would be willing to look at anything providing it would bring a little more equity back into the system.

Mr. MARLENEE. I thank the gentleman. I wish we had more time to discuss the dairy portion of the bill.

Mr. ROTH. I want my friend from Montana to know that is why when the chairman asked me if I would be kind enough to determine whether to speak now or after the vote, I thought now, because I knew you were going to come up with some tough questions.

Mr. Chairman, I would ask you and the committee to allow me to put my entire testimony into the record.

The CHAIRMAN. Without objection, your full testimony will appear in the record. We must go to the vote. We hate to ask our colleague to return, so why don't you two colleagues have lunch together one day, and visit about your respective concerns. [Laughter.]

Mr. ROTH. If my friend from Montana drinks milk for lunch, I will have lunch with him.

Mr. MARLENEE. Mr. Chairman, I have tried that, but he will not buy.

The CHAIRMAN. Well, if you can work something out between the two of you, I will buy.

The committee will stand in recess. Mr. Stenholm will return, and he will reopen the hearing if any of our other witnesses come by at that time.

[Recess taken.]

Mr. **Stenholm** [acting chairman]. Our next witness will be Mrs. Virginia Smith, a Member of Congress from the State of Nebraska and a good friend of agriculture.

Welcome, Virginia.

STATEMENT OF HON. VIRGINIA SMITH, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEBRASKA

Mrs. **Smith**. Thank you, Mr. Chairman. I appreciate having this opportunity to testify. I do have a statement which I would like to have included in the record, and I will summarize it very briefly.

Mr. **Stenholm**. Without objection, your entire statement will be made a part of the record, and we will hear your summary.

Mrs. **Smith**. First, I want to say how much the 1985 farm bill has helped agriculture in my area. We are in much better shape now and most of us feel that this is due to the farm bill.

I want to tell you right off, Mr. Chairman, that I have sent out a questionnaire to everybody in my district who has ever written me a letter about any farm issue in the last 15 years. I am now getting responses. I would like to give you a summary of the responses when I have them.

So far, the results of the survey are indicating that folks want more flexibility to plant alternative and experimental crops. Also, producers are greatly interested in protecting their soil. As producers think about the future and realize that some of the currently enrolled CRP acres will be coming out in 1995, and farmers are going to need 2 or 3 years advance notice as to what are the possibilities when the time comes.

I have introduced H.R. 47, another approach to new uses for agricultural products, and new products, particularly industrial uses. I am very gratified that, last year, the House passed a bill very similar to my own. It did not get through the Senate, but I think this is legislation that has a very important future.

We are delighted, in Nebraska, that President Bush was visiting last week to give impetus to the use of ethanol for fuel. I think that this is something that has a real future.

In addition, we realize that the protection of the environment is going to be a very big issue in the years ahead. I believe the Congress wants to protect the environment, but we want to protect it as sensibly as possible in the new farm bill. Food safety is also becoming so important, and I am hoping that all of us together can make sure that any concerns about food are based on scientific knowledge, not news media hysteria. I hope that we can make the American people realize and appreciate that we have the best food in all the world, the most abundant, and really for a smaller percent of our income than any other country.

This concludes my summary, and thank you very much, Mr. Chairman.

[The prepared statement of Mrs. Smith appears at the conclusion of the hearing.]

Mr. **Stenholm**. Thank you, Virginia. Any questions, Mr. Jontz?

Mr. **Jontz**. No.

Mr. STENHOLM. I would like to commend you on your statement. Food safety and environmental issues will need to be addressed.

Mrs. SMITH. I think it is imperative too. I did not take time to mention that rural development is also very important. It includes not only a reasonable income for agriculture, but we must also have health care, public transportation, and good education out of cross-rural areas.

Mr. STENHOLM. Thank you very much for your testimony. The committee will, again, stand in a brief recess. We have another vote. The other witnesses should return momentarily.

Mrs. SMITH. Thank you very much.

[Recess taken.]

The CHAIRMAN. The committee will be in order. We have our distinguished colleague from Kansas, Mr. Slattery. We give you permission, if you have a statement, and you wish your full statement to appear in the record, that will be so ordered, and then we will hear from you as you desire. We are happy to have you. We always appreciate your cooperation.

STATEMENT OF HON. JIM SLATTERY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF KANSAS

Mr. SLATTERY. Thank you, Mr. Chairman, and I commend you for holding these early hearings on this issue. I think it is important for the Congress to begin the process now to focus on the 1990 farm bill.

Despite the drought, Mr. Chairman, there is some good news from the farm country. Land values increased by 6 percent in 1988, the second consecutive year of increase. Farm debt has been reduced by 25 percent since 1983, and demand for U.S. farm products is strong.

The U.S. agricultural trade surplus, the largest single positive component of our trade balance has more than tripled since 1986. U.S. agriculture has returned to export competitiveness because of pricing policy, the Export Enhancement Program, and a more vigorous effort to open foreign markets. The next farm bill must continue an aggressive export promotion policy, including the Export Enhancement Program where necessary. The 1990 farm bill must also continue and build upon our commitment to soil conservation. I strongly support the concept of targeting conservation cost-share funds to areas of greatest need. Farmers must never be asked to choose between soil conservation and financial survival.

While I believe that the basic structure of the 1985 farm bill should be retained, some adjustments must be made. Mr. Chairman, I believe that it is time to put cropping decisions back into the hands of farmers. As you know, I have introduced H.R. 873, which would allow farmers to retain full base acreage while growing substitute crops like soybeans, oats, or nonprogram crops on farm program-based acres.

Other proposals would allow farmers to shift based acreage among program crops or end individual crop bases altogether in favor of a single normal crop acreage. I believe that these proposals also have a great deal of merit.

Farmers need flexibility to respond to changing market conditions and to improve profitability. I strongly believe that my bill also would reduce farm program costs by making it easier for farmers to seek profitable alternatives to program crops. In recent years, the Kansas State Board of Agriculture has been working to encourage production of alternative crops such as rapeseed and canola. I support provisions of the 1988 Disaster Assistance Extension Act that allowed production of these and other alternative crops on program crop base acreage during 1990. Congress should expand upon this authority in the 1990 farm bill.

I believe that Secretary Yeutter has the authority to allow substitution in the context of an improved conservation plan, just as the authority exists to allow crop acreage base exchanges. I have asked the Secretary to exercise his authority, but to this point to no avail. Perhaps explicit authority in the reconciliation legislation would help ensure the satisfactory implementation of conservation compliance plans which include these measures.

A great deal of interest is being generated by the concept of low-input sustainable agriculture. I believe that reducing our reliance on chemical fertilizers and pesticides warrants further investigation through research and on-farm experimentation.

Farm programs should not mandate or encourage the adoption of low-input agriculture, nor should they encourage excessive use of fertilizers and other chemicals. Farmers should have a choice, free of Government influence. If a farmer in northeast Kansas wants to rotate his corn-base to clover, he should not be discouraged from doing so. The fact of the matter is today he is because if he plants clover, he takes the risk of losing part of his corn base.

Mr. Chairman, that is absolutely ridiculous. Giving farmers more flexibility in cropping decisions will reduce the risk to farmers who choose to use alternative production methods.

Another area of broad concern is the establishment of farm program payment yields. I applaud the committee's action to allow farmers to report proven yields to ASCS in 1989 and 1990. It is essential that a mechanism for updating farm program yields be included in the new farm bill. For many northeast Kansas producers, 1981 to 1985 were uncharacteristically poor years. Many producers suffered drought or excessive moisture in 3 of those 5 years. The 1985 farm bill locked-in the effect of these disasters for the duration of that legislation.

At the very least, the new farm bill should allow the use of the 1989 and 1990 yield data to update the current farm program payment yields. I strongly urge the committee to avoid rigid formulas that lock-in past problems.

In closing, Mr. Chairman, I want to strongly express my support for a new Crop Insurance Program. I am hopeful that we can develop an administratively simple, reasonably-priced product that is flexible enough to meet the needs of farmers with a wide variety of production risk and financial circumstances. If drought assistance is not ultimately extended to spring-planted crops, farmers in my district could find themselves in a situation where they are caught between an inadequate Crop Insurance Program and the fact that their drought is too small to attract the kind of political attention that the other droughts have.

While this committee has been very responsive to the needs of these producers, the Bush administration's support for such assistance is far from certain at this point.

I am ready to work with the members of this committee, and again, Mr. Chairman, I commend you for your prompt attention to the 1990 farm bill. I think it is very important for us to start now the hearings necessary to focus on this problem.

I will be happy to try an answer any of your questions.

[The prepared statement of Mr. Slattery appears at the conclusion of the hearing.]

The CHAIRMAN. Mr. Huckaby, do you have any questions?

Mr. HUCKABY. Thank you.

Mr. Slattery, you mentioned that farmers should certainly have the prerogative, the ability to move between crops. Are you saying that you do not support our existing base system?

Mr. SLATTERY. Yes, basically that is what I am saying. What I am saying is that as far as I am concerned, it makes no sense for us to tell farmers in Kansas and all over this country that if you plant nonprogram crops on your acreage base, you risk losing that acreage base. The net effect is that in my part of the country, if a farmer wants to plant clover or alfalfa on his corn-base, he cannot do that, really, without losing part of his corn-base. That is really an absurdity. It has a negative effect on Government costs, as far as I am concerned. It directly interferes with planning decisions by the farmer.

In addition to that, it is seriously complicating our soil conservation efforts.

Mr. HUCKABY. Might I point out that historically, the role of Government in agriculture has been to try to smooth out the peaks and the valleys. If the prices are high, everyone rushes to plant wheat. When prices are low, no one plants wheat. If we have a drought also, then there is a world shortage of a commodity.

So, this has been a function of Government, and I think a proper function to try to level-out and do away with these peaks and valleys, and also to see that we have reasonable inventory levels. As a result of our Government programs, with the serious drought that we had, the consumers were protected. We did not have dramatic food inflation.

So, I feel that the base program has served not only the farmer well, but the American consumer.

Mr. SLATTERY. If I might just observe that I think you can strike a balance between making sure that we do have adequate supplies of affordable food in this country while also giving farmers more flexibility in planning decisions. The gentleman from Louisiana, I know, is concerned about this, and as far as I am concerned, you can even strike a compromise. Say you could plant alfalfa or clover, but some limitation would apply to the amount of program base acreage that could be planted to soybeans. I know a number of Members from the South are concerned about that, but for goodnesssake, at least let farmers plant clover on their acreage base without losing their corn acreage base.

There are some things that we can do, as far as I am concerned, that make eminent common sense that are not going to, I think, adversely impact the supply of food for the country.

Mr. **Huckaby**. I would think in the area where one might, for rotation purposes, and existing legislation provides that for conservation and rotation practices, be allowed to plant a legume and not adversely impact your base. Perhaps this is not as widely utilized as it should be.

Mr. **Slattery**. I think I understood your point, and I think I agree with it.

Mr. **Huckaby**. I thank the gentleman. Thank you, Mr. Chairman.

The **Chairman**. Thank you very much. We are very happy to hear from you.

Mr. **Slattery**. Thank you, Mr. Chairman.

The **Chairman**. Before we take the next witness, if I just might take a moment, we have some distinguished visitors from abroad, agricultural experts that are guests of the USIA and have been touring our country, observing agriculture. I have invited them to come in—I think there are 10 or 12 of them—just to say hello to them so that they can see our workshop, our committee room, and then we will continue, if my colleagues will bear with us for just a moment.

The next witness is going to be our colleague from North Dakota and former member of our committee, whom we welcome back. Would you just hold to your seat for just 1 second while I welcome our visitors.

I might state that our distinguished colleague from North Dakota moved over to the Ways and Means Committee where he helps us out tremendously. So, we stretch out to other communities. We do not graduate, but I guess we just move ours into other committees of interest and of importance to us, and I want to publicly acknowledge the great work that our colleague from North Dakota does for us and for agriculture as a member of the Ways and Means Committee. We regret not having him here, but it is very useful for us to have him in that committee.

These are our distinguished visitors of the USIA. I welcome you, and I asked you to come in so that you might greet some of the members. We are having a hearing on prospective agricultural legislation. I know you are from several countries. I think I may hit them all, so let me say good morning, buenos dias, guten tag, guten morgen, bon dia, bon giorno, bonjour, and dovre den to the one from Czechoslovakia. [Laughter.]

Mr. Sabo is from Czechoslovakia. He has received us in Czechoslovakia. We have visited with him and have visited the agricultural production in Czechoslovakia. We visited, practically, all of your countries. I hope that my feeble attempt at welcoming you in your own language will assure you of our interest in what you do and our interest in the friendly relations with your respective countries. Trade is a two-way street. It is not just sell, sell, sell, but what we can complement one and the other.

I hope that you had a very productive stay while in the United States, that you learned much that you go back to your country feeling good and well about American agriculture. Thank you very much.

I hope that you come back or that we might come back to see you in your country. Thank you.

Mr. Dorgan, we will be happy to hear from you at this time.

STATEMENT OF HON. BYRON L. DORGAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NORTH DAKOTA

Mr. DORGAN. Mr. Chairman, thank you very much. I was going to observe that if they had any money, we could have sold them a little grain while they were here, and ship it back and get there before they reached home.

Mr. Chairman, it is nice to be back with the Agriculture Committee, and I jumped to the opportunity today to visit with you briefly about the new farm bill. I had a farmer write to me about 6 months ago, and he said he was sitting at the kitchen table about 1:30 in the morning, and the rest of his family was asleep, and he was trying to describe to me what was happening on his farm and in his small town. One of the lines in his letter that I have not forgotten was this: "In my hometown, the main street is so dead-quiet these days, it is kind of like the last bird chirp before a tornado."

He was describing what was happening in some parts of rural America, a lot of land going into the Conservation Reserve Program, which is good. It's good for conservation, but pretty tough for some small communities in some areas. A lot of farmers have fallen by the wayside in the last 6 or 8 years. It has been kind of a tough time.

The question is, as we deal with the future, and farm policy in this country in the future, is what should we do to change things? What should we do to try and stimulate and promote a stronger and healthier agricultural sector in the economy?

I am struck by reading the morning papers and seeing that the news in America these days is who is trying to take over whom, trying to cut-up the pie in a different way so that somebody can get a bigger piece, or to shuffle the deck of old wealth so that somebody can end up with a little more of the old wealth.

There is not much news about agriculture, which is the sector that produces real new wealth, and is so incredibly productive that it is going to have historians 100 years from now scratching their heads trying to figure out why this generation was figuring out ways to cut back on production of one of its most important assets.

Well, with a hungry world and with the kind of agricultural industry we have in this country, we should be able to put together an approach that does a little better for family farmers than we now do. And let me make this observation. It seems to me that at least since I have been in Congress for the entire decade of the 1980's, that there has not been a guiding philosophy that I think ought to be present in the construction of a farm program.

Why would you spend public money on a Farm Program? The initiation of that, in terms of price supports, is pretty simple. That was that the vagaries and the price swings of international grain prices were so unpredictable and so vicious—these cycles of price swings—that family farms would not have the financial resources to fight through these precipitous drops in international prices. So, we will provide a little bridge across these price valleys. That is what price supports were, a bridge across the price valleys so that you do not wash-out family farmers every time you have one of these precipitous drops.

Well, the little bridge became a set of golden arches for some of the largest producers over the years. They have learned how to farm the Farm Program. In my neighboring State of Montana, we had some folks from your State, Mr. Chairman, decide to put together a consortium of 30 folks, and they rented some helicopters and broke some ground up in Montana, sections and sections of ground, and seeded it with helicopters. What they were doing was farming the Farm Program to try and get $50,000 each out of the Farm Program. There has been a lot of that sort of thing going on.

You have to go back, it seems to me, to square one, and ask: Why are we doing all of this? What are we trying to accomplish? It seems to me that the philosophy that ought to propel and drive our Farm Program ought to be this. It is our desire in this country to maintain a network of family farms for a whole range of economic and social policy reasons. It seems to me that if we just left it all alone, the land would be farmed. We would probably only have several thousand farmers. They would farm it by county or by several counties.

The question is not whether it will be farmed. It will likely be farmed under most conditions. The question for us is: What can we do to try and stimulate the maintenance and development of a network of family farms in this country's future? That is what is important to me. To answer that question, I think we have to define a set of policies that stimulates that kind of activity.

How would we do that? I would prefer to see us go back to a price support mechanism that says, "Yes, we need price supports to protect against the vagaries of international price swings," but the price support ought to be a vanishing price support. Mr. Slattery observed that we ought to try to get the Government out of the decisionmaking process. I am all for that. I would like to see less government involved if we can.

One of the ways I propose we do that is to say we want to provide a good, strong price support on the first increment of production. But, we do not have enough money to cover all production, so we will provide a price support for the first increment of production, and at some point, the price support vanishes because we cannot cover it all, and then beyond that, God bless you. You want to farm two counties, absolutely. You are on your own, though. The Government cannot afford to be your financial partner on all those bushels you raised.

I would like to see us approach the application of price supports in a way that gives the strongest price support possible for the first increment of production, which, coincidentally, has the feature of providing the strongest price support possible for the output of the family farm.

That, it seems to me, makes the most sense. It makes the most sense in the construction of a farm program. Planting decisions outside of that would be decisions wholly up to the individual farmer. It would mean less government. It would mean a better application of the price support where it would do more good. It will likely mean less money for the Federal Government. It has a lot of advantages.

So, those are the things that I would hope that this committee would consider.

Let me make this observation, as well. I noticed that in the proposal by the President to Congress, he is projecting 1994 target prices for wheat of $3.37 a bushel. I come from principally wheat country, although we raise a lot of other cash grains, but let me observe that the future for family farmers is not in more and more and more price erosion. That is not a future that makes any sense for the farmers I represent. That spells wholesale bankruptcy.

I tell you now that if we embark on this road of deteriorating price supports for wheat to $3.37 a bushel, while all other prices that farmers face are increasing, we will see wholesale bankruptcy in rural America. That simply is not an option that makes any sense, as far as I am concerned.

Let me finally observe that another approach that I am working on with Senator Conrad on the Senate side to offer as a suggestion—we are not quite through the construction of it—is an approach that basically does what I suggested on a vanishing support price, which incidentally, is something that is embodied in a plan called the Dorgan-Penny plan that I worked on with Congressman Tim Penny.

We are seeing if we can go further with that, the same basic approach, but try to extract the money for that from the marketplace rather than the Federal Treasury. That would embody having the CCC buy the grain and require the millers to get it from the CCC at an artificial price, but you would extract from the consumer the price necessary to support the price of grain on the farm, and relieve the Federal Treasury of that obligation.

Now, it is not simple to do that—I understand—but I would hope that as we think through what sort of new approaches, what kind of different and unique ideas can we develop to try and strengthen and help family farmers, that we would evaluate those kinds of things, such as vanishing support prices in the attempt to extract the money from the marketplace rather than the Treasury.

Those are things that I think, Mr. Chairman, make good sense.

I want to finally say that the farmers I represent in North Dakota owe a deep debt of gratitude to you, Mr. Chairman and the entire Agriculture Committee on what you did last year for the drought relief. We suffered the most extraordinary drought that we have had since the 1930's in North Dakota. Your leadership, Mr. Chairman, and the members of this committee put together what I felt was a wonderful drought relief package that helped a lot of farmers stay on the farm today who otherwise would have lost their farm. We owe you a debt of gratitude, and I want to, on behalf of the farmers in North Dakota say thanks for your excellent work in that area.

Now, if we can turn our attention to a longer-term, more stable, more effective Farm Program driven by a philosophy that says it is our intent to try and help foster and maintain a network of family farms in America, then we will have really accomplished something significant for this country's future, and especially significant for rural American's future.

Thank you, Mr. Chairman.

The CHAIRMAN. I thank our colleague. We thank you very much and look forward to working with you.

Next, I would call our colleague from Florida, Mr. Stearns, and our colleague from Georgia, Mr. Thomas, a distinguished former member of this committee.

We will hear from you at this time, Mr. Stearns.

STATEMENT OF HON. CLIFF STEARNS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF FLORIDA

Mr. STEARNS. Thank you, Mr. Chairman, and colleagues of the House Committee on Agriculture. I thank you for this opportunity to testify today regarding the 1990 farm bill.

Agriculture is critical to the State of Florida's economy. Nearly 1 million people—1 in 5 of Florida's workforce—are employed in agriculturally related jobs. More than 40 billion dollars' worth of overall economic activity is generated by the food and agricultural industry in related businesses every year. After tourism, agriculture is Florida's largest industry.

Florida's Sixth Congressional District, which I represent, encompasses much of the north part of central Florida, including the cities of Ocala and Gainesville. It is blessed with acres of farmland and an abundance of beautiful lakes, rivers, and streams. Like the rest of Florida, agricultural-related businesses employ many of my constituents.

I made it a priority to talk with farmers throughout my district about issues that directly affected their industry. Their concerns generally fall into three categories, Mr. Chairman, trade, environment, and research.

Florida's farmers, and farmers across the country, are deeply concerned about trade because 4 of every 10 U.S. acres go for export every year.

In this Congress, we need to work with the administration to level the playing field and knock down trade barriers. I am supportive of agreements similar to the ones signed last year by the Reagan-Bush administration to end Japanese quotas for beef and citrus products. This agreement was achieved after some tough negotiations, and it will result in more than $1 billion in agricultural-related exports to Japan a year.

Over a reasonable period of time, we should pursue negotiations to end subsidies that distort markets and restrict trade. However, we must act in concert with our trading partners, not unilaterally.

I am concerned that the protection of soil and water resources will be high on your agenda, Mr. Chairman. Many of my constituents have expressed their desire for continued protection of these precious resources. Currently half of all the U.S. residents, and 95 percent of all rural Americans rely on ground water for drinking. Contamination of this ground water and surface water by agricultural pesticides has become an increasing concern.

However, I strongly urge you to take every precaution before imposing new, wide ranging restrictions and regulations on farmers. Because of Florida's unique soil, climate, and growing conditions, the food in the agricultural industry will always need some chemicals to successfully compete in world and domestic markets. We must insist on a climate of reason before regulation. To demand regulation without regard to the economic impact of that regulation on business enterprises is unrealistic.

It is also important to recognize the interlocking relationship between research and technology, agricultural profitability, and environmental quality. Research traditionally plays a critical and cost-effective role in maintaining the economic strength of the agricultural sector. The success of the food and agricultural industry has been based on technology and research.

Mr. Chairman, I am very fortunate to have in one of our Nation's most distinguished land-grant universities in my district, the University of Florida in Gainesville. Its Institute of Food and Agricultural Sciences, better known as IFAS, is a leader in agricultural research. Its research supports Florida's $40 billion food, agricultural, and natural resource industries, and delivers science-based information to consumers on a wide variety of topics, including soil, water, and food quality.

IFAS is committed to work together with industry and regulatory agencies to develop appropriate technology, evaluate it, and employ it. This approach not only eases environmental pressures, but also enables our farmers to earn a living.

Congress needs to support agricultural research and educational programs similar to the University of Florida's IFAS program. The future competitiveness of agriculture depends on the creative and innovative research produced by these institutions.

Mr. Chairman, thank you, once again, for this opportunity to testify. I stand ready to assist you in any way to help America maintain its world leadership in agriculture.

[The prepared statement of Mr. Stearns appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you very much for being here. We look forward to working with you.

Next, our distinguished colleague from Georgia, Mr. Thomas.

STATEMENT OF HON. ROBERT LINDSAY THOMAS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF GEORGIA

Mr. THOMAS. Thank you, Mr. Chairman. It is a real honor to be back here today before this committee where I served the first 5 years when I was in the Congress, and I appreciate you giving me this opportunity.

When you began to recognize the foreign visitors a minute ago, I was a little apprehensive. Sometimes, those of us from the Deep South with our accents are accused of being from other parts of the country, but then I realize they truly were foreign dignitaries, so I am glad to be here and add a few of my comments, Mr. Chairman. I appreciate you giving me the opportunity to do so.

I recall well the writing of the 1985 farm bill, which I described often as one of the most amazing things that I witnessed since being in the Congress, the tremendous diversity that must be encompassed in this committee brought together to represent the best interests of agriculture from all across the country, all parts and all kinds of various agricultural needs.

Seriously, as a former member of this committee and a farmer, I realize that the members are facing a truly difficult task here, far more so in 1990 than in 1985. The situation where there is no understanding, really among nonfarm oriented Members of Congress that agriculture is still very vulnerable to another crisis. We face a time when the pressure of deficit reduction greatly restricts the resources that we have to work with. So, I do not envy your task.

But, in that context, I would like to express my full support for the continuation of two programs very essential to agriculture in the State of Georgia, one, of course, being the Tobacco Program, and the other being the Peanut Program.

Quite frankly, these are amongst the least understood of all agricultural programs amongst the general public. Yet, ironically, they are amongst the most successful programs that are operated. Both programs operate at a no-net cost, resulting in only very small Government outlays for administrative purposes.

I would like to point out that there should not be any conflict between the committee and health considerations on the Tobacco Program. The program does not support or encourage the growth of tobacco. That is a misnomer. It simply provides for the orderly growth and marketing of this commodity, with the producers covering the cost of any surplus leaf through an assessment paid on every pound that is sold.

It ought to be noted, also, that tobacco is a high-cost and a difficult commodity to grow. The equipment and cultivation practices that it requires are very costly, and so an orderly marketing program is essential.

While the legislation that guides the Tobacco Program is independent of the farm bill—and I am aware of that, Mr. Chairman—there have been efforts in the past to tie it together. This is not the time or the place, in my opinion, to do that. Unfortunately, many critics of the program do not realize the simple fact that if the program were to be disbanded or to be gutted in any manner—the growing of tobacco is nevertheless very legal—and it would simply become more widespread.

The ultimate result could very possibly be that the growth of tobacco in nontraditional areas would occur with considerably more leaf available in the marketplaces, so that prices would undoubtedly drop. Paradoxically, to those who oppose tobacco, we would see the price of tobacco dropping so low that the price of the leaf product could drop to a point where the public would be more likely to consume far more tobacco products.

Second, I would like to express my concern over the repeated efforts, Mr. Chairman—and it is no philosophical issue that you and I have discussed in private—about placing the caps on the amount of money which an individual producer can receive on Government benefits. Our former colleague here, Mr. Dorgan, expressed some similar concerns of mine, and also, I saw there were some ideas of disagreement about this.

But, as this committee goes about its difficult task, I do hope that it will realize the fact that many farmers must farm large acreages in certain parts of our country due to the nature of the crops that they grow, and the thin profit margins. Farming is different in south Georgia than it is in the Midwest and in the West.

Nevertheless, these farmers are still family farmers regardless of what size operation, and in my opinion, as long as they participate in the program and they are truly independent farmers, they should not have their payments limited under further limitations that are already imposed. In fact, I think that these are excessive.

For this reason, I hope that the committee will realize that payment limitations, plainly and simply, ought to be judged on the nature of the farming operation, whether it is truly an independent farming operation or not, and not just on the size.

Finally, I would like to share some thoughts on a subject that I continue to work on, despite my absence from this committee, and that is the importance of preserving our Nation's wetlands and properly stewarding our forests. These are areas that might be on the periphery of agricultural concerns, but they are, in fact, deeply related to agriculture's well-being and the people who carry out our agriculture.

For that reason, I hope the committee will continue to do everything in its power to preserve and help enhance the quality of our freshwater wetlands. It ought to be noted that wetlands are sources of cleanwater. They play an integral part in the removal of chemical residue and the breakdown of agricultural run-off and nitrate poison. Furthermore, the wetlands not only purify and store cleanwater, they also play an influencing part in our weather's climate, and nothing could be more critical to our farmers.

In short, wetlands are as valuable in the overall scheme as is the prime productive land that we plant the crops.

Let me applaud the work being undertaken by this committee. You are taking on a herculean task in a direct and well-planned and thoughtful manner. The chairman has frequently reminded us that politics is the art of the possible. To paraphrase him, I would say that agricultural legislation is truly accomplishing the art of the impossible.

I have full confidence that this committee will accomplish that goal in a manner that continues the up-swing of our farm sector that has characterized the last 5 years.

Mr. Chairman, thank you. It has been an honor to be with you and before this committee, again, today.

[The prepared statement of Mr. Thomas appears at the conclusion of the hearing.]

The CHAIRMAN. I thank my colleague for his testimony. Mr. Stenholm.

Mr STENHOLM. Yes, I, too, thank our colleague from Georgia for coming back to the committee and expressing some excellent points. The tobacco and peanut programs are basically no net cost programs.

You also noted difficulties surrounding limitations on payments. We think we have reached an understanding with some of our urban colleagues regarding this issue. We hope that it is not revisited again, and certainly we will be doing everything that we can, from a committee standpoint, to see that we draft legislation in a form that does not prompt those kind of reconsiderations.

Your concerns, in all three areas, are very well-stated and well-put. We look forward to having you on the Appropriations Committee finding the money to pay for the farm programs.

Mr. THOMAS. If I might, I think it works the other way around. You have to tell us what you need, and then we will tell you how much we can provide, but I hope you realize that on that committee, I will be doing all I can to see that our agricultural interests are taken care of.

Mr. Chairman, if I might just briefly respond to one thing that my good friend and colleague from Texas has pointed out, I simply think that if you went to my part of the country, and you saw that by the demise of so many of the small farms that are simply not able to stay afloat, that we have larger farming units, and this hints my statement about the payment of limitations.

I understand that when we go to the floor, that opponents of farm programs would simply say, "Here is this farmer getting this large check." But, my point is that if these farmers are truly independent family farmers regardless of their size, and they are participating in the programs that we put into place, then they should be the beneficiaries for those programs.

So, I thank my colleague for his comment.

Mr. STENHOLM. I think our colleague from North Dakota said it very well, that there is a limit as to how much the Government should support. There is a limit to how much we should support.

Mr. THOMAS. That is the reality.

The CHAIRMAN. I thank the gentleman, and I thank our distinguished colleague from Georgia.

I might mention the cost situation. They keep talking about cost and pointing their finger at us. Yesterday, as I mentioned at the inception of this meeting, we were commended for being frugal and spending less than was allocated that we could have spent. I have some figures here, and I keep repeating them, but I do not know if we are getting it across or not.

The total percentage of the budget—the trillion-dollar budget—spent for farm programs was: in 1975, .26; in 1976, .17; in 1977, .25; in 1978, .83; in 1979, .82; in 1980, .58; in 1981, .74—below 1 percent. And then we had problems, and it climbed, but it climbed into the total trillion-dollar budget. It climbed, in 1982, 1.9; 1983, 2.8; 1984, 1.07; 1985, 2.3; 1986—that is the highest—3.2; 3.2 percent of the total budget for the best-fed people in the world, in the history of the world, who spend the least amount of disposable income per family, lower than any other people in the world. Then, it started coming down: 1988, 1.4; 1989, 1.5; and 1990, projected 1.2. More graphically, we can show the now-famous charts. The red is the total budget—the trillion-dollar budget. If you can see the tiny blue line at the bottom, that is what we spend for agriculture.

They stole more money than that during lunch hour at HUD. This is what we spend for agriculture. By the time we get to agriculture, 96 percent of the budget has already been spent. So, where is the impact?

Then, we have this chart. What you see in the black, that is all the other programs in the Department of Agriculture, foods, school lunch, soil conservation, everything. The green is Farm Support Program, and the rest is other USDA.

This tiny little piece of the pie is what we spend on agriculture. The rest of it is not agricultural programs. Again, on the chart, the green is the total $1 trillion budget. The yellow that you can barely see, that is what is spent on agriculture. If you abolish the Department of Agriculture, that is the impact you make on the budget.

I am concerned and somewhat aggrieved that even the Secretary of Agriculture says that farmers are addictive, that we are pumping money into the farm sector, that we are wasting all the taxpayer's money. The taxpayer is not the one who is bearing the brunt. If there is any subsidy, it is the American consumer who is being subsidized on the back of the American producer. That is where the subsidy is.

I can show this, again, to the Secretary, to anyone that might point their finger at us. What does the American taxpayer spend on agriculture? That is what they spend on everything else. The tiny little line is what they spend on agriculture. I am proud of the fact that we have done so much with so little, and I appreciate the cooperation of all of the Members, and our distinguished colleague from Georgia who is here, and the other Members who are here.

We will be frugal, but we will have the best available program. I am very concerned that they keep pointing the finger at us. What the farmer does on Main Street of the farm community is where the money goes, to the drugstore, to the grocery store, to the seed store, to the fertilizer store, to the implement dealer, to the car dealer. That is where that money goes. It does not go in the farmer's pocket or in the savings account in town.

We have held up middle America in the small towns and villages with the money that we have put in, and no matter how you divide it, no matter what you say, the little blue line you cannot see is what we spend on agriculture. I think that is money pretty-well spent.

I think that would be a good point to wind up the hearing this morning.

Mr. THOMAS. Mr. Chairman, I will take your message to the Appropriations Committee. I doubt if any of the others will venture over here if they have watched this, but I will certainly take your message to the committee.

The CHAIRMAN. The committee will stand in recess until 1:30 this afternoon.

[Whereupon, at 11:25 a.m., the committee adjourned, to reconvene at 1:30 p.m., this same day.]

AFTERNOON SESSION

The CHAIRMAN. The committee will be in order. I might state to our distinguished guests that Mr. Kastenmeier is to preside at a subcommittee hearing, and he asked your indulgence in that we would let him proceed with his testimony. Then we will continue, subject to interruptions from the floor, since the House is in session. We are working on major legislation—it may not be of that much interest to the two distinguished guests, here—about the super-collider, but it is for us, in Texas.

While we are waiting for Mr. Kastenmeier, who said he was on the way, I might mention that our distinguished friends and colleagues in government, the two distinguished Governors who are here, Governor Sinner of North Dakota and Governor Hayden of Kansas, who will be introduced properly later.

But, we have our colleague, Mr. Kastenmeier, here. We have been waiting for you. We understand your constraint of time, and we will be very happy to hear from you at this time. I might advise you that two distinguished Governors, the Governor of North Dakota and the Governor of Kansas have agreed to let you go ahead of them. They know of your situation in having to preside over the subcommittee.

STATEMENT OF HON. ROBERT W. KASTENMEIER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF WISCONSIN

Mr. KASTENMEIER. Mr. Chairman, I am indebted to you and the members of this committee, and certainly to the two Governors who will succeed me rather than precede me. I do have a hearing, myself, on Federal judges, which is scheduled at this hour, which is being held up pending my testimony to you this afternoon, and I will try to be brief.

I have a written statement, and I would ask unanimous consent that the statement be included in the record.

The CHAIRMAN. Without objection, your full statement will appear in the record.

Mr. KASTENMEIER. I want to thank you for this opportunity to present testimony as you begin the lengthy process of revisiting a general farm bill, the 1990 farm bill. I commend you on getting an early start on the process, and I hope that this will lead, certainly, to early consideration, perhaps, in the next session of the 101st Congress.

Wisconsin, of course, is known as the Nation's dairy State. We are pleased with that designation. However, we are a producer of many other agricultural commodities, corn, soybeans, peas, vegetables, livestock, certainly wheat and other grains, apples, cherries, and we are even developing a wine industry. So, we do have a diverse agricultural production.

In considering new farm policy, we ought to ask ourselves, how do we meet goals that are reasonable achieving economic stability, and plentiful supply, all the traditional goals we associate with the aims of a farm bill? We need to, of course, take care that budgetary considerations do not allow product quality and safety to wane. We have always felt, or at least I have, that American food products have been a bargain for the American consumer.

The 1980 farm bill has returned farm income to levels seen in the late 1970's, but the bulk of that income comes from the Federal Treasury, and is not a sustainable policy in a deficit economy. I think we can maintain our position in the world market, but it makes no sense to do so by selling our commodities at prices below the cost of production.

I think we must get rid of the notion that we can commandeer the world marketplace by undercutting the prices of other nations. We should seek strong world market prices as a means of lifting the economies of the world while enhancing the profitability of our own farms.

The overriding pressure driving policy inherent in the 1990 farm bill will be budgetary. The cold facts are these. Left to a totally free market, American farmers will overproduce and lower prices to a level that will not sustain the cost of production. Direct Government subsidies aimed at ensuring that production while compensating farmers are, generally, too costly.

I believe we have no choice but to move to programs that grant farmers the discipline they lack as individuals to manage the supplies of their products in order the ensure a profitable price. Certainly, I believe this is true in dairying, and I am the author of H.R. 1137, pending before your committee, which would create a two-tier pricing supply management program for dairying. It is a proposal based on a proposal of Associated Milk Producers, AMPI, and also has the support on the grassroots basis of a lot of other farm organizations, dairy organizations, the National Farmers Union, NFO, AAM, and so forth.

Without going into substantial explanation of the bill, today, because I know that you will, in due course, your committees and subcommittees will be having commodity hearings, and I would certainly encourage you to come to the State of Wisconsin in connection with that.

I also have two other bills, one that directs the Secretary of Agriculture to establish a single, nationwide milk marketing order. I do not, thereby, seek a reduction in dairy farm prices anywhere, really, in the country, but the differential that has plagued the upper Middle West in the present system is apparent.

I would also say that we probably need to move to supply management options for other products, wheat, corn, and so forth, that are based on bushels that are produced rather than acres planted.

Finally, I would like to close, today, by mentioning an item that is not necessarily a matter for the 1990 farm bill. I am the chairman of the House Judiciary Subcommittee with jurisdiction over the Patent Office. As you know, the Patent Office has begun to issue patents for genetic engineering in animals. Last year, the House passed a bill I introduced granting farmers an exemption from animal patents. The Senate did not take action on the bill. I have introduced it again, and it is my hope to move it through the Congress following the August recess.

The bill will not pass without the active support of farmers, farm organizations, and farm Congressmen, however. We face an active, I think, reservation, if not outright opposition from the biotech community. This committee, certainly, Mr. Chairman, is interested in this bill. I know that the gentleman from Texas has certainly expressed interest in it.

There is a much broader concern than just the question of patents. There is a question of the regulatory framework for research in genetic engineering. The bill would give the U.S. Department of Agriculture authority over genetic engineering in food animals. As a result, this broad regulatory framework, the bill is actually shared by three committees, including your own, and I would hope that you would, in due course, even as you undertake this great 1990 farm bill, consider that.

I want you to know, Mr. Chairman, that I would be willing to assist the committee in any way I can to move toward a markup and passage of the 1990 farm bill, and as I indicated earlier, I would be pleased if we could even have field hearings in the State of Wisconsin. I would like to recommend that, as well.

I thank you for the opportunity to appear before you, sir.

[The prepared statement of Mr. Kastenmeier appears at the conclusion of the hearing.]

The **Chairman**. I thank our distinguished colleague, and we certainly appreciate your being here. I can assure you that your suggestions and proposals will be given due consideration as we begin the process to finalize a vehicle for what will eventually be the 1990 act. And I am sure that somehow, sometime, we will be coming through Wisconsin as we have field hearings.

Thank you for your cooperation and your pledge of cooperation.

Now, it is my happy privilege to ask to the witness table the distinguished Governors of North Dakota and Kansas, Governor Sinner and Governor Hayden. At this time, I would yield to my distinguished colleague from Kansas, Mr. Roberts for an introduction, and then we will proceed back to Governor Sinner.

Mr. **Roberts**. Thank you, Mr. Chairman. Indeed, it is an honor and a privilege to introduce to the committee my very good and longtime friend, the Honorable Mike Hayden, who is Governor of our State of Kansas.

You mentioned in your opening statement, Mr. Chairman, when we were starting consideration of the farm bill, that this was going to be a team effort. Without teamwork, we are simply not going to get the job done.

The captain of our team in Kansas is Mike Hayden. He comes by it naturally, Mr. Chairman. He is a native son of Rawlins County, smalltown America from Atwood, Kansas, America, if I can use that term. He has been the primary mover, Mr. Chairman. If you note the letter we received from the Secretary of Agriculture in regard to the disaster assistance bill, he said he would support a disaster assistance bill if we could meet some of the problems as opposed to simply saying that this was not a good idea.

I think that is the result of Mike Hayden inviting our Secretary to Kansas to take a first-hand look at the disaster conditions over 1 month ago. When he did so, he accepted the invitation. He came and saw the hardship, and as a result, I think we have a much better chance of passage of this legislation.

In addition, I would say to the committee and my colleagues, that the Governor has proposed what I call some reform in regard to the total farm-base of the acreage base situation with our producers. We just held a hearing here yesterday, Mr. Chairman. You were present, and the Sugar Subcommittee, the Wheat Subcommittee—we went over the bill that Mr. Stenholm and I have introduced, and I would say to Mr. Stenholm that our Governor of Kansas is in support of a total farm-base concept much in the same fashion as we have suggested in previous legislation.

Last, he is a champion of the environment and conservation out in our country, whether it be the problems that we are experiencing with the ground water or wildlife preservation or the preservation of other native grasslands. He always seems to do this with some common sense attention to the problems of the producer, as well.

With that, Mr. Chairman, it is my personal privilege to introduce my longtime friend to the committee, Governor Mike Hayden.

The **Chairman**. Thank you very much. Governor, we are very happy to have you here.

Let me state that the other distinguished Governor, Governor Sinner has been exceedingly helpful to us. It was an inseparable part of the activity in bringing last year's drought bill to the floor, and to its final successful conclusion, the way that the Governors, led by Governor Sinner and Governor Hayden and other Governors, stood with us shoulder to shoulder, working with us in a responsible way to address the issue that needed to be addressed for rural America and for the producers of this great country of ours.

So, I can never thank you enough, Governor Sinner, and through you the other Governors that collaborated and worked with us, for the excellent manner in which you supported us, and worked with us to the final culmination of that legislation.

Hopefully, we expect the same type of work and cooperation as we work toward our 1990 farm bill, and the legislation that we will be bringing up next year.

I think, probably, as we did with the 1985 act, that a bill will be introduced, probably by the chairman of the committee, with the caboose and the engine, and then you and the people of America and our committee will fill in the in-between, and that will be our vehicle for legislation.

We begin that process now, and we are very happy to have you here. Governor Sinner, we will be very happy to hear from you at this time.

STATEMENT OF GEORGE A. SINNER, GOVERNOR, STATE OF NORTH DAKOTA

Governor Sinner. Thank you, Mr. Chairman, Mr. Stenholm, Congressman Roberts, Congressman Holloway, and Congressman Olin. Thanks for being here.

I have to tell you, Mr. Chairman, that one of the most edifying experiences of my life was to see people in both parties and all through government who are concerned about agriculture, worked together last year, and not play one-upmanship, but solved the problem. You were terrific, and I appreciate it.

We are clearly in a time of great flux. Agricultural policy at the government level, at all levels is changing rather dramatically. The last decade was probably one of the toughest extended periods for agriculture with rapid changes in exports, the value of farmland, grain, livestock inventory, and interest rates. We had record fluctuations in commodity prices. Farm Program costs went from nearly zero to nearly equal to the farm income.

In addition to these drastic changes in values and price, in 1988, the agricultural sector experienced the worst drought in 50 years, leaving us with the lowest food reserves since about 1973.

All of this took place without any fundamental change in farm policy. Ag policies did not cause, nor were they able to alleviate the problems that took special legislation in the case of the drought. I consider the long period of a very bloated dollar to be the major cause of agriculture's problems in the 1980's.

The value of the dollar rose 70 percent from 1981 to 1985. When it finally reversed its trend, huge damage had been done. It has risen, again, between 20 and 30 percent since last January, and that is a major concern for agriculture. Even though things are looking a little better for ag, it is difficult to tell how markets will be affected. No one knows what will, in fact, be the repercussions of our dramatically lowered food reserves.

Global production, dependent on the vagaries of weather, will largely dictate the outcome. But, public policy that recognizes historic periods of food shortages is important, too. Thoughtful policymakers know that even a brief shortage of food can cause horrible human suffering.

We should go into GATT negotiations with strong policies in place to protect and preserve the American farm economy from strong international policies that derive from acute awareness of this historic fact. Starvation is unacceptable for even the briefest time.

Yet, there appears to be a basic ideological struggle currently going on. The struggle is between those traders who believe in market uncertainty, movement, and volatility, and who are in pursuit of free trade, a great many others who are concerned—on the other side—about maintaining a healthy domestic agricultural economy in order to assure that the world has an adequate supply of food.

God knows, we all treasure our free enterprise system, but realistically, we cannot glibly translate belief in the free enterprise system into an unrealistic dependence on free trade in food.

Whatever the outcome of the GATT talks, our 1990 farm bill must provide strong Government support for U.S. agriculture. Those policies put in place by Congress should not be allowed to be erased by the GATT negotiators.

We should not give away our Sugar Program nor should we demand that other nations give up the right to produce domestically a fundamental food supply, say, something like 75 percent of domestic needs. Many of those nations have been hungry, and they are not about to become overly dependent on imports lest the end result be food shortage.

And there are other facts. Let us just look at the exchange rate issue for 1 minute. How can a free-trade system really work when they exchange rate of either sides of many sides can manipulate? Just think about this. In the United States, the average net profit of our retailers averaged between 2.5 and 3 percent of gross sales.

Governments can skew currency values more than that overnight. Strangely, it does not bother those people who proclaim the "free trade" euphemism to manipulate currency values both unilaterally and multilaterally. They do it all the time. And of course, they must because no one has looked seriously at a way to stabilize the rates.

As a result, to undertake any kind of open trade, without starting the process of unifying these currencies, is madness. In my judgement, we absolutely must begin the process of finding an answer to the volatility of currency values and exchange rates, or at least a way to cope with them.

If there were no other way, we should adopt a policy using a 10-year moving average for an exchange rate base and of correcting deviations from that 10-year moving average with a tariff. If we cannot cover the whole deviation, we may be able to cover two-thirds or three-quarters of it to keep countries from playing games with each other, and to force them to recognize the harsh realities of currency values in the marketplace.

We saw new evidence of another new factor last year. We saw a really strange phenomenon with food reserves dropping to almost the lowest levels in history with amazingly little concern among consumers or amazingly little effect on the markets. The consuming public and the food industry has become complacent about the ability of world farmers to produce affordable and safe food. No one holds reserves except producers and first processors. This no-inventory, empty pipeline syndrome is peculiar to food, but clearly the world's most vulnerable area is food.

This is what appears to have brought it on. First and fundamentally, we had 45 years of almost completely uninterrupted shipping in the world, and for this we should all rejoice. But, in these 45 years, all anyone had to do to have a boat-load of wheat or a boatload of rice was to snap his fingers, and instantly there was a boat at that dock. As a result of this, reserves were gradually pushed in the hands of producers and first processors. Relative peace and reliable shipping went hand-in-hand.

Second, during this same period, a very reliable futures market developed which allows processors or importing nations, when they are concerned about short crops and higher prices, to simply buy the paper, not the product. That, again, pushed products back into the hands of principally residual suppliers.

Then, in the 1970's, a third phenomenon that further exacerbated the trend toward empty pipelines was double-digit interest rates. Who could afford to carry reserves with 16 to 20 percent interest rates? So, again, there was a further pushing back and the dilution of a sense of urgency of reserves because the practicality of it was you could not afford it anyway.

Then came the 1980's, and the highest real interest rates in history, at least in the United States, became the final financial drag that totally emptied the pipeline. By the end of 1986, the United States sat holding about two-thirds of the world food reserves, clearly, the world's residual supplier.

This, then, was followed by a drought that we saw last year in which we saw the largest drop of world food reserves in known history, and as I pointed out earlier, strangely, very little response on the market.

There are some questions that trouble me about this. Is the hand-to-mouth economy possible to maintain, or are we living in a world that really does have an assured food supply? In my judgment, the answer to both the questions is clearly no. History is filled with the years of plenty and lean years, as well.

Can the world really live without reserves, and can governments let it? Again, I do not think so. Is Europe going to rely on a free market? Their people have been hungry. Can India and Africa? Can Japan and those countries that have a vast amount of imports rely on a food economy that lives from hand to mouth? Will they do so? I do not think so.

Another germane question is will the United States continue to hold two-thirds of the food reserves? The answer is, of course, there is no way that we can continue to do that. Can needed reserves be distributed? Clearly, that is one of the things that the GATT discussions must take up.

Finally, can we get rid of subsidies? I do not think so. I believe the world will retain production subsidies or subsidies to assure some domestic supply, some domestic sourcing, maybe as high as two-thirds or even three-quarters of annual domestic needs. I am sure that is what the Europeans would tell you.

I think we can get rid of export subsidies, and that is a lengthy matter that I am not going to go into, but eventually, I think the world can get rid of export subsidies.

I want to mention just a couple of specifics just before I make a final philosophical comment. Governor Hayden is going to touch on most of the specifics.

I think we need to look at reopening the right of proven yields. There are many young farmers who are suffering from their inability to prove yields during the past few years. It is important to allow proving of yields, again, and to coordinate proven yields at least for Federal crop insurance. That seems to make eminent sense, and will make the system much more equitable.

Another issue that I think you must look at as a committee is the need to raise target prices. Target prices have been decreasing for the last 5 years, and the chief food policy controls inflation through farm legislation. Yet, farmers are the largest consumers of farm implements, services, and products that continue to rise in price. Inflation adjustment to raise target prices should clearly be made. This would also send a clear signal to the GATT negotiators that the United States intends to support its farmers.

We need, also, to figure out what to do with all the land that is already in the Conservation Reserve Program. Keeping eligibility for wetlands to help farmers providing habitat for wildlife is an extremely valuable tool in wetland preservation. Federal agency takeover of lands has frankly gotten out of hand in the West, at least, and I think must be curtailed. The best way to do that is through a private and public cooperation that rewards the private landowners for setting aside and preserving wetlands.

Finally, I would like to make some philosophical comments about the role of Government. We have long since recognized that Government has a fundamental role to play in the management of land. We have always recognized the Federal, State, and local government right of eminent domain for roads, parks, schools, military bases, and cities. We have massive land ownership that is getting out of hand, at least in the western States.

The bottom line is that we have always recognized that the Government has an obligation there, and we have treated water the same way. We have controlled navigable streams. We now deal with cleanliness in water. We have Federal projects by the Corps, the Bureau, EPA, Fish and Wildlife Agency. Water is fundamental to our people, and we have seen the role of Government as a necessity there.

There is a third area that has always been assumed, and that is air. We have controlled flights from the beginning. We are struggling to control, and rightly, I think struggling to control pollution of our air with the extremes of global warming and acid rain possibility before us. No one really knows where our control of air will stop at this point. But, it is quite clear that we recognized the role of Government.

There are two other areas that we must recognize, and one is energy, and hopefully we are redeveloping our energy policy for this country. But, the final one is food.

We have to ask ourselves, can the world rely on simple supply and demand in food? In this country, we have seen hunger, but not wholesale hunger, but lots of nations have. The question then becomes, is our Government simply to turn this basic commodity of food over to the whims of supply and demand and profit and loss? In my judgment, Mr. Chairman, the answer is clearly no. They cannot.

Producing nations have learned that it is costly for governments as well as price depressing to carry large food reserves, yet they must be held for the reasons of hunger and human need. If reserves are going to be held, all nations should share the responsibilities, and farmers should be compensated for the fact that reserves depress prices. Governments will look for as much domestic production as they can reasonably afford to support.

The bottom line is that if we are going to maintain the peace and assure the people of the world an adequate food reserve, we cannot euphemistically talk about free trade and supply and demand and profit and loss because it just is not going to work that way. There must be several things done to see that the world equally and fairly carries reserves, and as much freedom as brought to the market as possible, but clearly within realistic parameters.

For us, particularly in the United States, if our Government does not protect its own free enterprise system, I assure you the other governments of the world will destroy it. So, while we cherish as much free trade as possible, we must be careful of an easy allegiance to a free-trade euphemism.

Mr. Chairman, I apologize for not going into detail. I am going to leave that for Governor Hayden, and at the end, if there are any questions, I will be happy to answer them.

Philosophically, I am concerned that we forget that human beings live out there, and we give way to some macroeconomic theory that forgets that people in our State live and die and lose their businesses and their lifelong enterprises when the world's food supply falls into jeopardy.

Thank you, Mr. Chairman.

[The prepared statement of Governor Sinner appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you very much, Governor. We have a vote on. I just have enough time to get there, and we will return promptly. So, if you will bear with us, take a little 5-minute break, and we will be right back.

[Recess taken.]

The CHAIRMAN. The committee will be in order.

Governor Hayden, after the introduction that Pat Roberts gave, I thought I would invite you over to the Potomac and see you walk on it. [Laughter.]

We will be happy to hear from you at this time.

STATEMENT OF MIKE HAYDEN, GOVERNOR, STATE OF KANSAS

Governor HAYDEN. Thank you, Mr. Chairman. From what I have heard of these oil spills, one of these days we are liable to be able to walk on the Potomac.

I would like to say, Mr. Chairman, that back in Kansas, we would sympathize with anyone who had to sit between Congressman Glickman and Congressman Roberts. So, our thoughts and hearts are certainly with you.

I would also say that we appreciate all the work that you did with the Governors. I appreciate the fact that you will meet with our ag committee and the Governors' Association on numerous occasions, and remember well your appearance in Kansas a few years ago at the State fair to meet with our producers. We appreciate that.

Let me say that before beginning testimony on the 1990 farm bill, I would just like to talk a moment about the drought relief of 1989. We appreciate the fact that your committee has taken some action. In fact, the House of Representatives has voted on a piece of legislation. Let me say that the loss to wheat producers in Kansas this year is going to exceed $1.5 billion, and we have heard clearly what the Senate has said. We heard clearly what the President has said.

We appreciate what this committee has done, but we urge this committee to, in fact, reach a spirit of compromise with the President and the Senate, and agree upon a drought relief bill for our wheat producers. They have been sorely damaged. In fact, in Kansas, Mr. Chairman, they have been damaged to a far greater extent than they were in 1988. In 1988, we were there to help the producers in the Dakotas and Nebraska and Iowa and in the Carolinas when they needed help, and we hope, now, that they will hear our plea because we are in the throes of the worst drought in recent memory, and we face the worst wheat crop in Kansas, the No. 1 wheat State in the Nation. We face the worst wheat crop in 23 years.

So, we hope that cool minds and heads will prevail, and that a good compromise between the House and the Senate and the White House can be agreed upon, Mr. Chairman, and we beg your indulgence to be a major player in that effort.

Let me say that from the Kansas viewpoint, your work in 1985 in this committee in creating the Agricultural Farm Bill of 1985, was an outstanding accomplishment. It has substantially contributed to stabilizing the farm economy. It has made our farm products more competitive on a worldwide basis, and it is successfully and drastically reduced soil erosion and degradation of our environment.

Over 1 year ago, Mr. Chairman, in Kansas, I appointed a Governor's agricultural policy group to investigate and discuss what Kansans believe ought to be in the 1990 farm bill. This group met many times, met with producers, met with farmers all across the State, and there are several themes that have emerged. We believe that you ought to build on the 1985 farm bill. It was a good piece of legislation. It ought to be the basis for your deliberations this year. We believe that it ought to be market-oriented.

We think you have a good basis to start, but we think there are several things that need to be considered for change. First, Mr. Chairman, we suggest substituting a total farm-base program for wheat, feed grains, rice, and cotton. We must allow our producers greater flexibility. A total farm-base program would involve the aggregate number of acres of all program crops produced on a given farm rather than reducing acreage of a specific crop.

I know there is fear, Mr. Chairman, that if, in fact, you give farmers freedom, that we might plant corn in Kansas instead of wheat, and that might lower the price of corn to Iowa producers, or that we might plant cotton, and it might flood the market and lower the price of cotton to your constituents back home.

But, in reality, Mr. Chairman, that is not going to occur to a very great extent because in Kansas, we cannot grow cotton like you can, and we cannot grow corn to the extent that they grow it in Iowa, certainly. But, if our farmers had the flexibility in times of drought, in times of disaster, in times of changing market and weather conditions to adopt that market, and plant and produce for that market instead of for Government programs, we would all be better served.

The truth is that our farmers need to be able to produce according to farm income, consumer needs, and environmental concerns rather than demands from Washington. We hope you believe that, and we hope the 1990 farm bill will provide a greater opportunity for that.

My second point, Mr. Chairman, is that the USDA needs to allow the planning of industrial nonfood crops, crambe, rapeseed, kenafe, for example, on set-aside acres so producers can test these crops without being penalized. These new industrial crops, if established, would create new opportunities for our farmers and for rural businesses, and reduce our dependence on foreign imports. Most of these crops, right now, that are used by industry, as much as 80 percent of it has to be imported to this country.

Our farmers do not have any opportunity to experiment with it because of the strict restrictions of the 1985 farm bill. On some of this set-aside land, I can see no purpose for prohibiting the use of experimentation on nonfood crops on some of this land so that our farmers could get into the business of supplying the needs of our industry, and reduce our reliance on foreign imports.

Third, Mr. Chairman, we would like to see you establish an environmental Conservation Acreage Reserve Program. This program would expand the existing CRP, which was a great step forward in 1985, to permit areas inhabited by endangered species or environmentally sensitive areas to be eligible for the benefits offered by the CRP program. It includes wetlands, riparian areas, and other areas that influence water quality.

We are very concerned about water quality in farm country. I know you are in west Texas. We are in western Kansas. While the CRP was a great step forward in 1985, it is too restrictive in that it is restricted, essentially, to our most highly erodible acres. There are many other valuable acres that influence water quality, especially along our streams, that ought to be eligible for participation in the CRP, or at least consideration for participation by the owning farmers. We would hope that you would expand the CRP program to provide for this in 1990.

We would like to see you, Mr. Chairman, provide cost sharing for pilot projects in the establishment of artificial wetlands for the control and cleaning of run-off waters from feed lots, livestock operations, and packing plants. It can be done, and, in fact, needs to be done. We are the No. 1 State in the processing of red meat, the No. 2 producer of red meat in this country. We see that as an expanding industry. Exports are up substantially.

We have an opportunity to provide a safer environment, and to properly dispose of the affluence of these operations without damaging the environment, especially the fragile ground water in western Kansas which you have, also, in western Texas. We think the 1990 farm bill ought to provide an incentive for farmers and feed lot operators to take these steps to protect our important ground water.

We would like to see you provide research alternative policies to encourage to reduce the use of energy, of water, and agrichemicals in agriculture in order to improve net farm income, and to protect the environment.

Let me say, too, Mr. Chairman, and I know I am preaching to the choir on this, but we appreciate the competitiveness of the Export Enhancement Program. It has been an outstanding program for our producers. It has allowed them to compete in a global economy. We urge you to make a strong export enhancement provision in the 1990 farm bill as you did in 1985.

We would hope, too, that you would provide support for research on agricultural production systems in a variety of capacities, those that would help us reduce our use of energy and water, those which would enhance our extension programs in rural areas to meet the constant economic and technical changes in agriculture and in rural America.

Finally, Mr. Chairman, we would urge the placing of additional emphasis on rural development through assistance programs directed toward the enhancement and creation of jobs.

Rural development is hinged, Mr. Chairman, upon jobs. I do not need to tell you, coming from the district you do, that the real life blood of rural America and smalltown America are jobs. As technology advances in agriculture, fewer and fewer people are employed directly on the farm. In order to reserve the lifestyle that we know in small towns in rural America, we, in fact, need to have your help and assistance through the 1990 farm bill on job creation through rural development programs.

We realize the budget constraints the Federal Government is facing. We would suggest that these implementations, these recommendations be implemented at a cost no greater than the funds expended for the Food Security Act of 1985. We are not asking for additional appropriations above that amount. If, in fact, this committee deems additional funding beyond that level as necessary, we would hope that you would search in the existing budget, and I know how tough that is as a Governor to redirect priorities.

We are not asking you to increase the Federal deficit to fund the 1990 farm bill. We do not think it is necessary. In fact, it would provide our farmers and producers enough flexibility, especially through a total farm-base program, we can actually reduce the cost that the Federal Government is going to be obligated to pay.

I am sure, Mr. Chairman, that I can speak for all the Governors, Governor Sinner and I, when we say we stand ready to work actively with the President, with the Congress, to develop an effective and workable 1990 farm bill. A close working partnership between the State and Federal level is absolutely essential. We appreciate that partnership that you showed the leadership on last year in the Drought Relief Act of 1988. We look forward to that same continuing and successful partnership as we mold the 1990 farm bill.

Thank you very much, Mr. Chairman.

[The prepared statement of Governor Hayden appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you very much, Governor. For my part, let me say we appreciate both of you being here. I assure you that not only today, but as the days go by we will not only be discussing and considering your recommendations of today, but we look to continuous visits and input from you.

I like very much what you said Governor, about the Drought Relief Act—that you were there, you helped us last year, and you asked that we help you this year. I assure you that we will do that.

The winter wheat is already covered. There is no question about that. The Secretary of Agriculture, some very prominent Senators that you might know, disagree with what we did for whatever the reasons. We did what we figured needed to be done because we do not know, yet, the end result, and we were buying a little insurance. But, being very responsible, a very prominent Member of this House, who is sort of a watchdog on the budget, commended us for what we were doing, that we had spent less than that which had been allocated or that we could have spent. I know they call it a catchall, and so on, but it is insurance.

You will be taken care of whatever the end result. The distinguished Secretary of Agriculture spoke to both of you Governors and all of the Governors from the Midwest and agricultural States.

He spoke in the morning, and I spoke at noon to the American Seed Trade Association. It is very disturbing and unbelievable when I read it. It does not sound like the person I know, who is now Secretary of Agriculture, and it is almost an indictment of the producers of America. Let me quote what he says. "Farm producers," he continued, "are getting closer and closer to asking the Government to absorb all their risks. If all the requests for relief and Federal aid for agriculture were honored by the Government, the Federal deficit would be doubled or tripled." In another area, he says, using his home State of Nebraska as an example, of the potentially addictive activity of the producers of America.

I cannot see that because our economist on the committee gave me the 1989 deficit. That is $158.9 billion. That is the deficit. The 1990 deficit, $147.3 billion. That is the deficit. Our Secretary of Agriculture says that would be doubled or tripled if we assisted agriculture with everything they are asking for.

Now, I do not know what they are asking for, but here are the costs of the programs from 1975 to 1980 as a percentage of the Federal budget: In 1975, it was .26 percent, .17 percent, in 1976; .29 percent, in 1977; .83 percent, in 1978.

Now, we go to the 1980's, with the 1985 act. In 1986, it was 3.2 percent. That is the highest. But, 3.2 percent out of a trillion. Then it started—the working of the 1985 act—1987, 2.7 percent; 1988, 1.4 percent; 1989, 1.5 percent; 1990, 1.2 percent. Yet, our distinguished Secretary of Agriculture says it will double or triple it. I guess he was just speaking off the cuff, I hope, because that is really not at all within the area of figures that we deal with.

I do not know if you have seen our now-famous chart that we have on this committee, but I showed it this morning, and I will show it again. I hope the Secretary might watch if this is to be disseminated through the media. You see the red? That is our budget. One trillion plus. Now, you cannot see it, but there is a little line at the bottom. That is what we spend on agriculture. To triple the budget, you would have to do it 1 billion times over. That little tiny line is what we spend on agriculture.

I said it this morning, and respectfully, they stole more money than that during the lunch hour at HUD. Our distinguished Secretary says that all this is addictive activity of the farmers. Yet, Governor Sinner, in the overall scope of your testimony, sir, you say we grow for the world. A lot of it we give away, some we sell. But, we are the breadbasket for the world. Everyone relies on us.

Policy is a continuing process. We will build on the 1985 act working with you and the Governors, because you are close to the people. You have a sense of what they are doing and what their needs are. But I am very disturbed about this statement of the Secretary that assistance is addictive, that we would triple or quadruple the deficit. It is unbelievable that he would use such figures because if you just look at our chart, it is just not there. We are spending a minimal amount of the budget.

Another thing is that there are some, on the fringes of right and left, that think that all this money is going to a farmer to put in a C.D. or take to his bank account or savings account, or go off somewhere on a vacation. I ask you to join with us and help us make these people on the right and left understand you are responsible for them, even down to the Main Street of your small towns and villages. It went to the drugstore, the grocery store, the department store. It went to the implement dealer, the fuel dealer, the car dealer.

I had a colleague during the 1985 act, and I apologize to my colleagues—I will wind up—who said, "Hey, I'm from an urban big city. I want to help you and vote with you, but give me some explanation of what I tell my constituents why I voted for this farm bill?" I said, "Billy, it is called pickups." He said, "Well, what do you mean pickups?" I said, "The farmer does not buy the pickup made in Ottumwa, Iowa. It is manufactured in Detroit, Michigan." He said, "I get your message."

That is what it is all about. But there are people out there, conceivably even the Secretary of Agriculture, who thinks this money is going into the pockets of the farmer. It is going to the grocery store, to pay the school taxes, and some to the churches, to pay the county tax. That is where it is going. I get so frustrated.

I guess, maybe, I am unloading on you because we need your help to bring out the truth. Maybe you can be a part of a truth squad to bring out the truth. A great man once said, "Always speak the truth. It will edify some and astound the rest." I think that is what we need to do.

The gentleman from Virginia.

Mr. OLIN. Thank you, Mr. Chairman. We enjoy your explanation of things. I would say that you probably would get the attention of the Secretary of Agriculture, if you had not already. I think you probably have. I will not comment further on his comments.

I would like to ask a couple of questions to the two distinguished Governors. Governor Hayden, you expressed the desire and hope that the 1990 farm bill could be put together with a cost of no more than the 1985 bill. I want to be sure that we have a common understanding. As you remember, the 1985 bill started out with, at least, the commodity cost fairly high, and that came down in steps to a lower figure where it is today. I think it is $12 or $13 billion. It is still a small number, as the chairman has said.

Was your comment directed at a cost no more than the 1985 bill now costs? Is that what you were referring to?

Governor HAYDEN. No, sir.

Mr. OLIN. Or the total 4-year cost?

Governor HAYDEN. The total cost, sir. I know, in fact, that it started much higher, in fact, up in the twenties.

Mr. OLIN. Up to twenty-five or somewhere in that area.

Governor HAYDEN. That is right, and has declined. We would hope that commodity prices would be strong enough that it would not have to go back up into the twenties again, but when we speak of the cost, we speak of the total life of the program.

Mr. OLIN. I think it was our impression that during the course of the 1985 farm bill, the net income of farmers, as a whole, rose.

Governor HAYDEN. Yes, sir.

Mr. OLIN. Even though there was some shrinkage in the target prices, the loan rate went down, and so on. I think it has been our hope that we might be able to continue that trend and not adversely affect farm income.

Would that be compatible with what you are thinking of?

Governor HAYDEN. Yes, sir, it would, absolutely.

Mr. OLIN. Can I ask another question of the two Governors? This issue of the drought, of course, was a very important thing for you and for us during the very bad year that we had. Do either of you visualize that it will be likely that we are going to be able to improve the Crop Insurance Program sufficiently so that the Federal Government and the farmers could count on crop insurance as opposed to Federal help in these severe drought situations? Governor Sinner.

Governor SINNER. I think, theoretically, Congressman, that is possible. Right now, though, there is no coverage for specialty crops. As Mike mentioned, we think that we need to encourage specialty crops. Under the current rigid structuring, that really is not possible. I think the committee should look at saying something up to, maybe, 10 percent of acreage reserve may be used to grow specialty, nonprogram crops, particularly the kind that he mentioned.

I do not know where that will play out in the final discussion, but I think the committee should look at allowing a certain percentage of set-aside to be used for those kinds of crops.

Second, we are also going to have to, in the insurance sector, provide several options because under the present structure, a producer that has highly productive land and probably a little extra input, can get a better production. He should be able to buy insurance that will cover that higher cost of inputs. He is going to have to pay a premium for it, but so far, we have not developed that program to its maximum. Part of it is because there were some bad mistakes made in the program a few years ago.

I think, theoretically, it is possible. I was going to mention in my testimony, and it was getting a little long, so I skipped it, but I think you are going to have to look at long-term drought provisions. We provide disaster assistance for tornadoes, for hurricanes, for fires. We do it for all kinds of natural disasters. Frankly, we have been through such a long period of abnormally good weather and abnormally big yields, world-wide, that I think we have been lulled to sleep, just looking at water supply alone.

I have been meeting with the Federal agencies to try to get some sort of game plan. How in the heck do we deal with water shortage? We have whole big areas for a water table to drop away from wells. We are ill-prepared at the State level and Federal level to deal with that.

So, I think we have to do some long-range planning. I personally think that Congress should look at, whether it be through the insurance alone or through a combination of things, I think Congress should look at providing a vehicle for long-term dealing with drought emergencies. I do not see that it makes sense to go through this turmoil every year. It is just too much work, and it is hard on everybody.

Mr. OLIN. Governor Hayden, could you comment briefly on that question?

Governor HAYDEN. Yes, sir. Let me say that I used to sell crop insurance before I was Governor, and to illustrate the problems, we had a manual of instructions, and then we had a manual of the changes. The manual of changes was twice as big and twice as complicated as the instructions. It is crazy. It is not anything anybody could go out on the free market and sell to anybody.

If you want to have a program, and you could have one out in farm country that would work that farmers would find acceptable, first off, you have to sell them something they want. As George said, in a lot of cases, the amount of insurance you can purchase under the program is way too low. You have to pay a higher premium if you are going to provide the greater protection against the risk. Farmers ought to have that option.

Second, you need to bring stability to the program. Come out with a set program and guidelines and say what they all are, and say that this is what they are going to be for the next 24 months. These are the rules. Then, the marketplace will work. The insurance man can go out there and sell it to the producer, and he can promise him what he is going to get, and you can give him a list of options which is just like buying coverage on your car, whether you want a $50 deductible, a $100 deductible, a $250, a $1,000, or if you do not want to carry collision at all.

Those are the kinds of options that need to be available to our producers on a lot of different crops. As George said, there is a number of key, especially the higher risk crops for which there is no protection. There is no program.

So, if you design a program based on the needs of farmers, and let free enterprise work to a much greater extent instead of sending down more changes than the original regulations, it could be effective, and a lot more producers would participate.

Mr. OLIN. I am listening. I appreciate your comments. My time is certainly up, Mr. Chairman.

The CHAIRMAN. Thank you very much. I think it would be proper at this time to mention that we have this Federal Crop Insurance Commission that we established, and they have been working. A report is due at the beginning of this coming month, and we will be looking at their recommendations and suggestions for legislation.

We are also looking, Governor Sinner, at the possibility of either the crop insurance or some other mechanism so we do not have to go through this every time. Going back, again, to the Secretary's statement, that the farmers expect Government to take all the risks. That is not so. Both of you gentlemen are in positions that know better than we, if you have a disaster, a tornado or a flood or a major fire or an earthquake, they send in the National Guard, the Federal Guard, the FEMA, the MIMA, the PIMA, the army. They rebuild city buildings. They will rebuild you a State capitol if an earthquake hits Topeka, Kansas.

Yet, a farmer asks for a little assistance, they say, "No, he is becoming addictive." You have seen when there is a major physical disaster you probably cannot move in your State capitol from all the Federals coming in there. They bring trailers to house people, and they bring portable hospitals. Not that we deny that when it is needed and not that we do not approve of it, but to say that a farmer is addictive when you have all this massive Federal assistance coming in when a little tornado goes through Ottumwa, Iowa—I use Ottumwa, Iowa because I used to know a girl from there. [Laughter.]

But, it is not fair. You know that you say we have a disaster, you may even pick up the phone to call the President, and whoosh, here they come. They cannot do enough for you. But, they do not see the drought. They do not see it start withering the wheat or start withering that corn. If it does not make the 6 o'clock news, it is not a disaster.

I am cutting into Mr. Roberts' time. Mr. Roberts.

Mr. ROBERTS. As always, Mr. Chairman, my time is your time.

I know that the USDA has a very fine graduate school, which the Secretary is proud. But, after today's hearing and judging from what I think is probably an isolated remark that is always taken out of context, and your observation, Mr. Chairman, perhaps the Secretary should come down and take part in your class, basic farm economics 101 as taught Professor Emeritus Chairman (Kika) de la Garza complete with the charts.

I think further observations—this friend of both the chairman and the Secretary will offereth not on this particular subject.

I would like to say something about the disaster bill. I share our Governor's concern, that we did, on the House side, address the spending issue with the Grandy amendment which simply says you cannot spend anymore than you are saving in deficiency payments.

Now, from my standpoint, that poses a different problem for me in that it has been the major crop disaster in wheat country that has prompted this whole bill. That is what the disaster bill is all about. If you have a major crop loss, that is the purpose of the disaster program, and crop insurance—I know with all the problems that we have had with it for the past 12 years ever since it came on board as such that it is not very popular in my country, that is, high-risk agriculture, and primarily because of what our Governor has pointed out. We only had 17 percent signed up last year, and now we have about 47 percent, and that is because of the dry weather.

But, we have a commission to address that, and they have made some very fine recommendations to the Secretary, and we will move on that in September, and we will try to improve the program. To my way of thinking, the crop insurance issue is still down the road. If we can improve it and improve the participation, somehow sell to that farmer that this is the cost of production that he must incur, that the disaster program is on-board for one reason, if you have a major crop loss. Here, we have the Grandy amendment that says you cannot spend anymore than you save, and so that wheat deficiency bank could be used to pay farmers and producers of other crops if they suffer from any adverse weather: Rain, hail, infestation, pestilence, you name it.

But, we are not going to be spending over the target because we cannot. Somehow, that is going to have to be resolved. I do not know whether we just go to 1988 planted crops, or if we are able to put another spending lid on, but it concerns me that the wheat farmers payment, if you will, or disaster assistance, could be prorated or reduced as a result of this spending lid that we imposed in the House Agriculture Committee. I must say that I voted for this spending lid. I think we have to be frugal.

But, the chairman is exactly right in terms of the spending concerns. They should not be there because of the Grandy amendment. In addition, the livestock sector, or the section of the bill which I authored, we left it to the discretion of the chairman. I should say Mr. Secretary.

The CHAIRMAN. No, thank you. [Laughter.]

Mr. ROBERTS. And make the point to him. We do not have any PIMA's, to my knowledge, in Topeka, though, Mr. Chairman, but my concern is that I think we have a good bill if we can reach a compromise with the Senate. Timeliness is very important. The Senate is going to act on this in July, and I have every expectation we can reach a compromise and have it signed by the President.

I want to thank both Governors for your testimony, and more especially for your advice and counsel on the next farm bill, and we look forward to working with you.

Thank you very much, Mr.Chairman.

The CHAIRMAN. I thank the gentleman. Mr. Jontz, do you have a question or statement?

Mr. JONTZ. Thank you, Mr. Chairman. I want to take a moment to associate myself with your remarks and also with your charts, and I appreciate your speaking out on that subject.

Governors, I want to thank you for your statements. Governor Sinner, I was not present when you spoke, but I have had the chance to review your statement, and I want to comment, first of all, on the perspective you put on the GATT negotiations, and the expectations our country should have in that regard, and the proper role of the Congress in relationship to the GATT talks.

I also want to thank you for your comments on target prices noting that the costs of production are up for farmers around this country. We benefit a great deal after the enactment of the 1985 farm bill from decreasing costs of production, we cannot anticipate that that will continue. In fact, the reverse is happening. We need to take into account that in looking at where target prices should be. Governor Hayden, I want to express to you how pleased I am to meet you, and to know that Kansas is in capable hands while my colleague, Congressman Roberts, is here trying to straighten things out in Washington. I am glad to know that you are back home in Kansas looking after things there.

I thank you both for your statements. Mr. Chairman, I yield back the rest of my time.

The CHAIRMAN. I thank the gentleman.

Governor Hayden, you said you sold crop insurance. I know a young man who when I asked him, "How is it going?" He said, "So-so. I knock at the door at the farmhouse and say I am selling Federal crop insurance. They either tell me they already have it or they sic the dog on me."

Governor HAYDEN. I know the feeling, Mr. Chairman.

The CHAIRMAN. We have this very good commission out there which encompasses all segments of the industry from the producer all the way down to the salesman. We look forward to the report, and we will be working with it.

I might mention, Governor Sinner, your emphasis on the GATT. We have had some concerns that we may have unilaterally surrendered some program already in the discussions in GATT. But we are going to continue a very vigilant oversight. I, personally, and some of my colleagues attended the Montreal Midterm Review Hearing. I and some of my colleagues went to Geneva. And I have made the commitment to our producers of all American commodities, that we will send someone from this committee at every meeting at whatever level so that we can be there to see that our interests are protected.

We met with the President of the Commission, Mr. Delors, who was here last week. I met with him. We had a good meeting, and it is well that we can communicate and have the dialog. Yesterday, the Prime Minister of Australia, Mr. Bob Hawke was here. I had an opportunity to visit with him to discuss the problems we had with them in relation to sugar. I think it was a very productive hearing.

So, we are working, and I invite you to work with us. I cannot thank you enough for taking the time from your duties in your States to be here. You have enhanced, tremendously, this beginning session of the 1990 act, and hopefully we will travel the road together as we work toward a good end. Legislation, I say, is the art of the possible. What is possible that day, that hour, basically that minute. We work to that by getting consensus.

My distinguished colleague from Texas, Mr. Stenholm, has come back in. I will recognize him at this time.

Mr. STENHOLM. I, too, would like to offer my words of thanks to you, Governor Sinner, for your work with my subcommittee and this entire committee last year on the drought bill. I heard your opening remarks before I had to leave. It is your kind of cooperation that makes service on this committee and working on the problems well worth the effort. The group that you represent is extremely important to the legislative process of farm policy.

I just met with a group from 15 countries talking about the same thing that you have in your statements today pointing out the difficulty of getting agreements in the GATT.

I think there is almost unanimity of thought that we ought to eliminate subsidizing exports.

It was a real pleasure, last year, for me to travel to Minnesota and North Dakota. I was coming from dry west Texas. It is never a pleasure to see the devastation of drought, but we live with it time and time again. However, nothing like we saw in so much of the country last year. The political support that was rounded up last year was a great team effort in terms of providing some needed assistance to producers.

We appreciate you, and we look forward to a continued good working relationship in the days and months ahead. We appreciate your efforts.

Thank you.

The CHAIRMAN. Thank you very much, both of you. Let me say I do not know how you will take it, but us being up here on this side of Capitol Hill, there is a saying that from Governors, Senators grow. Good luck. [Laughter.]

Governor SINNER. Mr. Chairman, in closing, let me thank you. We live in the real world. We have to deal with all the problems that come with disaster and with the planting populations caused by, I think, a preoccupation with macroeconomics, that forgets that lives are torn apart. People may go hungry, and there are no easy solutions to this world food situation, but what we are a part of it, and we cannot, on the one hand, hold a reserve for times of shortage, and at the same time rely on free market. It is not going to work because the two are incompatible.

So, we come here knowing that we cannot write the legislation. We cannot be down here to participate on a day-to-day basis. We do want you to know that we will help in any way we can on a bipartisan basis to see that our people, that produce the food, are taken care or, even while producing or taking care of those that need it.

So, we thank you very much for your concern.

The CHAIRMAN. Thank you very much to both of you.

Our next witness is our distinguished colleague who is very helpful in our endeavors, Mr. Bereuter.

STATEMENT OF HON. DOUG BEREUTER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEBRASKA

Mr. BEREUTER. Thank you, Mr. Chairman and members of the committee. I appreciate very much an opportunity to testify before the Agriculture Committee as you begin your considerations on the preparation of a 1990 farm bill.

I was trying hard to think of something positive I could say about the Federal Crop Insurance Program, but I cannot, and I am just urging you to do a very basic reexamination of that program. I also heard reference to the agricultural economics 101 course taught by the chairman, and I have a constituent who has invited to come forward. His name is Clayton Yeutter. I mention that hoping it will increase and nor decrease my clout before the committee.

I have a summary of the results of agricultural listening sessions that I hold every second year at a variety of places in my district, and I am going to include it—with your permission—as part of my testimony.

Mr. STENHOLM [acting chairman]. Without objection, your entire written statement will be made a part of the record.

Mr. BEREUTER. Thank you. On my testimony itself, I am not going to go into the details of those recommendations from my constituents. They are there for you to read. They are not too surprising in content, but I think you would see the kind of comments from around the country. I will just mention one of them before going on to a few of my own comments that is based upon input from those meetings and from many other sources.

The one thing that I would emphasize that came strongly forth from those sessions is that a majority of producers voice the view that the cross-compliance provisions, which require the tenants but not the landowners, to comply with the conservation requirements on each farm or lose benefits for all farms are both unfair and unreasonable. I think this must be a high priority for change of many tenants will either be forced to discontinue renting some farms or forego participation in the Farm Program. More details are on page 6 of my testimony about that particular recommendation.

But, now I am going to switch to page 8 in my written testimony before you, and just mention, as I said, a few other points that have come to me from a variety of experiences and comments from constituents and others around the country.

First, the Office of Technology Assessment, OTA report on enhancing the quality of U.S. grain for domestic and export markets is, I think, a very significant study upon which Congress can continue to build. I call that, again, to your attention. While not everyone agrees with all of its conclusions, there has perhaps never been a more in-depth study done of the entire grain marketing system and the importance of maintaining grain quality at every step of the marketing chain.

It also brings to light significant advantages of an improved premium and discount system. This new schedule for premiums and discounts is based on high grain quality factors and was introduced by the gentleman from Kansas, Mr. Slattery and myself, last year, and included, by the committee and the U.S. Grains Standards Act Amendment of 1988. While the pilot project calls for modest increases in the premium for the delivery of quality grain, I feel there is still too much emphasis on discounts. I would like to see more emphasis placed on other quality factors, such as protein content, moisture, and dockage in the premium and discount schedule.

Nevertheless, this is an important and positive initiative that I think should become a permanent element in the next farm bill. I would also suggest that Congress annually review the premium and discount schedule for purposes of strengthening the grain quality incentives.

Second, this Member, and I hope this committee, will be looking at a number of other legislative initiatives for improving the reputation of our grain. One suggestion that comes to mind is to improve the rotation of grain in the reserve by providing effective incentives to farmers and annual rotation could be developed with the cleaning and delivery of the older grain to the CCC in order to make additional storage available on the farm for newer crops to be held in the reserve.

This type of rotation would inevitably help to maintain a more uniform grain standard by eliminating or at least reducing the blending of older, out of condition grain with the newer and better quality grain entering the market pipeline.

I would also like to see the USDA be more aggressive in preventing grain in poor condition from entering the domestic or export market as a food or feed stock, and I have a specific suggestion. It is my understanding that the USDA currently has the authority to issue certificates or weekly bids to small ethanol producers for the removal of poor quality grain from CCC stocks. We all know that there is plenty of out of condition grain in commercial and farm storage that could be diverted to ethanol production. It could be done on a weekly bid basis.

In light of the inevitable consideration of the Clean Air Act Amendments and the renewed emphasis on alternative fuels, agriculture should be poised to take advantage of a major market share of ethanol by using such a bid process. This program could increase uniform quality of grain, supply a reliable market for poor conditioned grain and increase commodity prices for domestic and export fronts.

I would tell you that this is not a unique idea. Certainly, other people have it, and one of the people who spoke to me most knowledgeably and effectively is your former colleague, the President's Agricultural Advisor, the gentleman from Iowa, who served so effectively on this committee, Cooper Evans.

I would like to make a few comments about some of the conservation provisions contained in the 1985 bill, and how some Conservation Reserve Program acres might be extended beyond the 10-acre contracts through economic incentives. If Congress is serious about the conservation compliance provisions, more money must be appropriated for the ACP to assist in implementing the present conservation requirements. These requirements have been included, of course, to protect the public interest, and also to gather the coalition of support for the farm bill, and they are maintaining our Nation's soil and water resources better, and are rightfully a public responsibility.

While the SES has revised the original and often rigid rules surrounding the 1990 compliance deadlines, I think we must not become to lax in the pursuit of the effective conservation practices, nor should we allow those farmers, who will be faced with very high costs, due to required structures or management changes, to be driven from program participation.

Although it is too early to tell what market conditions will be like when the CRP contracts begin to expire, I think it is not too early to begin thinking about incentives which may be needed to keep the most erosive soils out of production. I am particularly interested in adding provisions to the CRP program which would encourage more tree planting on these lands. Programmatic changes and perhaps more incentives should be developed for tree planting in parts of the Midwest and in the Great Plains where the program really does not work now, but, I think, has some potential

Next, while the USDA has committed a significant increase in funding for water quality programs, I think $181 million is the figure, Congress can also continue to contribute in solving this critical and increasingly evident problem.

I strongly urge this committee, Mr. Chairman, to pursue in concept the concept of enrolling tracts of land with significant ground water contamination into the CRP. Put that land in the CRP. Additionally, Congress should finally pass the National Ground Water Contamination Research Act. This legislation is needed to coordinate the various agencies' efforts that are charged with ground water protection and remediation to better respond to these new and serious challenges.

Mr. Chairman, those are my comments. You have an incredibly important task before you. I congratulate you on beginning your effort at this point. There are many things I would like to talk to you about at a different time with respect to the GATT process, and agricultural exports where I have been involved. But, I have focussed, today, primarily, on the farm programs and the conservation elements, thereof.

Thank you for giving me this opportunity to present my testimony.

[The prepared statement of Mr. Bereuter appears at the conclusion of the hearing.]

The CHAIRMAN. We thank our distinguished colleague, and we look forward to working with you between now and when we finalize the 1990 act.

Mr. Jontz.

Mr. JONTZ. Mr. Chairman, I have no questions. I do want to thank the gentleman for his testimony, and he made many fine points, in particular I want to comment on the recommendation for making CRP more effective in our northern States. I think that is an excellent idea.

I also want to take advantage of the opportunity to thank the gentleman for his good work on the Banking Committee and the Foreign Affairs Committee on issues of concern in agriculture, and your personal help to me on matters pertaining to Third World debt, and appreciate your leadership on agricultural issues as a member not on this committee. Thank you very much for your recommendations for our consideration.

Mr. BEREUTER. Thank you, Mr. Jontz. It is a pleasure to work cooperatively with you on some of those issues related to agricultural exports and Third World debt. I think the Ag Committee, the Banking Committee, and the Foreign Affairs Committee all have a part of the answer, and I look forward to continuing to working with you.

The CHAIRMAN. I thank the gentleman, and I appreciate his being here.

I have already asked for unanimous consent, but I will restate that any member that may wish to submit statements for today's hearing may do so, and we will advise members. That will include Mr. Obey, who, regretfully, is on the floor at this time and cannot be here. His statement will be incorporated in the record.

Under that unanimous consent request, also I would ask unanimous consent that at the end of today's hearing, testimony that was to have been submitted at a hearing which we were to have had last Friday, June 23, in New Orleans, looking at our export trade, be added. Regretfully, the House stayed in session, and we could not get to New Orleans for the hearing, but we will keep the record open for several days. Those statements that we have at this time will be submitted for the record at the end of today's hearing.

Let me state that we have had a good hearing today. We begin the process where it should with the Members. We have followed with two distinguished Governors representing the Governors of the United States. Now, we go out to the field in the process of getting information from the producers, from farmers and ranchers, consumers, environmentalists, conservationists, everyone that will be impacted by the 1990 act.

We will not be dealing in a vacuum solely within the confines of these walls of this hearing room. We will be out in the field visiting with people because we legislate for the world. We have to deal with GATT, which encompasses most of the nations of the world. We have to deal with the world monetary system. We have to deal with world debt in developing countries.

As an aside, I just got a report from the Department of Agriculture which verifies what we have been stating that as Third World countries', developing countries' debt goes up, their purchases of American agricultural products come almost exactly the same percentage down. What we do to a system for subsistence agriculture or even for commercial agriculture generates more funds for them to trade with us. So, it is to our own interest to help them one, reduce their debt, and two, enhance their ability to produce and to produce necessary income, which, in most cases, is in dollars for them to buy from us.

We will be putting this altogether. We will look at the environment, what impact we have on it. We will look at what impact we have on waterfowl, what impact we have on endangered species, what impact we have on wildlife, what impact we have on the quality of life. We will be looking at the spectrum of programs touching people's lives in something we call the farm bill.

So, with that, I hope that the blessings of the Good Lord and the hard work of the members and all of us who will be working—the Governors and the State legislatures, and farmers and ranchers and producers and consumers—will have something worthy of remembrance when we conclude the activities of the 1990 act.

With that, the committee will stand adjourned.

[Whereupon, at 3:20 p.m., the committee adjourned, subject to the call of the Chair.]

[Material submitted for inclusion in the record follows:]

HONORABLE RICHARD H. LEHMAN
STATEMENT BEFORE THE COMMITTEE ON AGRICULTURE
ON PREPARATION FOR THE 1990 FARM BILL
1300 LONGWORTH BUILDING, 9:45 AM, JUNE 28, 1989

MR. CHAIRMAN, THANK YOU FOR THE OPPORTUNITY TO APPEAR HERE BEFORE THE COMMITTEE TO TESTIFY ON TOPICS THAT THE COMMITTEE WILL CONSIDER IN PREPARATION FOR DEVELOPING THE 1990 FARM BILL. I UNDERSTAND THAT IN ORDER FOR THE COMMITTEE TO ACCOMMODATE ALL THOSE WISHING TO TESTIFY TODAY THE TIME IS LIMITED, SO I WILL KEEP MY COMMENTS BRIEF.

MR. CHAIRMAN, AS YOU KNOW, THE CONCERN FOR MANY OF US WHO REPRESENT AGRICULTURAL REGIONS IS-- WILL THE NEXT FARM BILL BE AS SUCCESSFUL AS OUR LAST? AFTER FIVE YEARS OF FARM POLICY THAT HAS LARGELY ACCOMPLISHED WHAT WAS INTENDED, IT WILL BE OUR RESPONSIBILITY TO DEVELOP A POLICY THAT WILL CONTINUE THE JOB OF FARM RECOVERY. IT IS QUITE LIKELY THAT THE 1990 FARM BILL WILL ULTIMATELY DETERMINE THE COURSE OF OUR FARM POLICY THROUGH THE END OF THIS CENTURY. HOWEVER, SOME OF THE POLICIES DEVELOPED IN THE 1985 FARM BILL WILL NO LONGER BE EFFECTIVE TOOLS FOR REBUILDING OUR FARM ECONOMY, WHILE OTHERS ARE MORE IMPORTANT THAN EVER FOR CONTINUED GROWTH. A GOAL OF THIS FARM BILL MUST BE TO ENSURE AGRICULTURE THE FLEXIBILITY AND SUPPORT IT NEEDS TO MEET GLOBAL CHALLENGES.

OUR PLACE IN THE INTERNATIONAL MARKET PLACE WILL, IN LARGE

PART, BE DEFINED BY OUR BARGAINING ABILITY IN GATT NEGOTIATIONS. OUR GATT NEGOTIATORS WILL BE IN A BETTER POSITION TO NEGOTIATE IF WE CAN CONTINUE TO REDUCE THE OVERALL COST OF FARM PROGRAMS. HOWEVER THE CHALLENGE IS TO LOWER COSTS WITHOUT REMOVING THE SAFETY NET OF PRICE AND INCOME SUPPORTS. BUT, IN ORDER FOR AGRICULTURE TO AVOID THE UNTENABLE POSITION THAT IT FACED IN THE EARLY 1980'S AS A RESULT OF CHANGING ECONOMICS, U.S. FARMERS MUST HAVE THE FLEXIBILITY TO RESPOND TO CHANGES IN MARKET CONDITIONS CREATED BY GATT AGREEMENTS.

ANOTHER ISSUE THAT I THINK SHOULD BE IN THE PROCESS OF SHAPING FARM POLICY, AND ONE THAT I KNOW YOU HAVE PERSONALLY BEEN INVOLVED WITH MR. CHAIRMAN, IS THE ISSUE OF FARM EXPORT. EXCELLENT GAINS HAVE BEEN MADE SINCE 1985. THOUGH WE HAVE BEEN PLAGUED WITH HIGH TRADE DEFICITS, AGRICULTURE EXPORTS HAVE CONSISTENTLY REMAINED HIGH AND ARE OFTEN THE ONLY BRIGHT SPOT ON THE OVERALL TRADE PICTURE. FOR MANY COMMODITIES, THESE GAINS HAVE ONLY BEEN MADE POSSIBLE THROUGH THE USE OF THE TARGETED EXPORT ASSISTANCE PROGRAM (TEA) FUNDS. THE TEA PROGRAM IS ESPECIALLY IMPORTANT TO THOSE CROPS FOR WHICH THERE IS NO OTHER TOOL TO COMBAT NON-TARIFF BARRIERS AND SUBSIDIES THAT VIRTUALLY SHUT THEM OUT OF COMPETITION IN FOREIGN MARKETS. ALTHOUGH THE PROGRAM IS AVAILABLE TO MANY DIFFERENT COMMODITIES, THE PROGRAM HAS BEEN EXTREMELY SUCCESSFUL IN PROMOTING CALIFORNIA'S SPECIALTY CROPS IN MARKETS IN THE PACIFIC RIM COUNTRIES, THE EUROPEAN COMMUNITY AND OTHER TRADITIONALLY HARD-TO-ENTER MARKETS.

LAST YEAR A GENERAL ACCOUNTING OFFICE REPORT CRITICIZED THE PROGRAM'S OPERATION, WHICH LED TO CALLS TO ABANDON THE PROGRAM.

AFTER RELEASE OF THE GAO, THE DEPARTMENT MADE CHANGES IN REGULATIONS REGARDING FUNDING JUSTIFICATION AND FOLLOW-UP. THE DEPARTMENT'S WILLINGNESS TO CLEAN ITS OWN HOUSE, BY MAKING THE PROGRAM MORE EFFICIENT AND EFFECTIVE, CONFIRMS THAT THERE IS NO NEED TO HANDCUFF THE PROGRAM BY TAKING AWAY ITS FLEXIBILITY. I URGE THE COMMITTEE TO RENEW ITS COMMITMENT TO REVITALIZING AGRICULTURE THROUGH IMPROVED TRADE BY REAUTHORIZING THE TEA PROGRAM WITH ITS CURRENT DIRECTION.

FOOD SAFETY IS AN ISSUE FOR WHICH THIS COMMITTEE SHOULD TAKE THE LEAD WHERE ITS JURISDICTION ALLOWS. RECENTLY, ALL OF AGRICULTURE HAS SEEN THE AFFECTS OF THE CONSUMER PANICKED BY PERCEPTIONS THAT THE FOOD WE EAT IS A SERIOUS AND CONSTANT THREAT TO HEALTH AND SAFETY. NO FARM POLICY CAN AFFORD TO IGNORE THE LESSON THAT HAS BEEN LEARNED. EVERY STEP MUST BE TAKEN TO RENEW THE CONSUMER'S CONFIDENCE IN THE SAFETY OF THIS NATION'S FOOD SUPPLY. WHILE IT IS DIFFICULT IN THE CONTEXT OF LEGISLATION TO MANDATE CONSUMER EDUCATION OR HOW AS AN INDUSTRY WE SHOULD HANDLE THE MISPERCEPTIONS CREATED BY MISLEADING INFORMATION, IT SHOULD BE REMEMBERED THE INCREDIBLE IMPACT NEGLECTING OR IGNORING THIS ISSUE CAN HAVE ON AGRICULTURE. IT IS CLEAR THAT, REGARDLESS OF OUR ABILITY TO PRODUCE, CONSUMER CONFIDENCE IS A SIGNIFICANT ASPECT OF AGRICULTURE. IT IS IMPERATIVE THAT NOT ONLY DOMESTICALLY PRODUCED GOODS ARE "CERTIFIED" SAFE, BUT SO TOO MUST IMPORTED FOOD PRODUCTS. THE AMERICAN CONSUMER HAS NOT SHOWN A WILLINGNESS OR AN APTITUDE TO DISTINGUISH U.S. FROM FOREIGN AGRICULTURAL PRODUCTS AS THEIR COUNTERPARTS IN EUROPE SEEMED TO

HAVE.

THE 1990 FARM BILL SHOULD CONTINUE TO RECOGNIZE THE IMPORTANCE OF MARKETING ORDERS. SINCE 1937, MARKETING ORDERS HAVE GIVEN STABLE PRICES AND ORDERLY MARKETING OF THEIR CROPS TO GROWERS AND PROVIDED CONSUMERS WITH RELIABLE SUPPLIES OF PREMIUM QUALITY PRODUCE. HOWEVER A PROBLEM THAT HAS KEPT THE ORDERS FROM RUNNING SMOOTHLY IS THE DEPARTMENT'S INABILITY TO REVIEW AND PREPARE REGULATION CHANGES NECESSARY TO IMPLEMENT THE MARKETING ORDER'S PROGRAMS. IT IS IMPERATIVE THAT THE DEPARTMENT MAKE CHANGES IN A TIMELY MANNER AND ASSERT ITS AUTHORITY IN ENFORCING THE PROGRAMS.

THERE ARE A NUMBER OF COMMENTS THAT I WOULD LIKE TO MAKE REGARDING SPECIFIC CROPS AND PROGRAMS, HOWEVER, IN THE INTEREST OF TIME I WOULD LIKE TO JUST TOUCH UPON SOME FACTS THAT ARE IMPORTANT TO UNDERSTANDING CALIFORNIA'S CONTRIBUTION TO THE NATIONS FARM ECONOMY. THE DIVERSIFIED FARMING AREAS OF CALIFORNIA PRODUCE OVER 250 DIFFERENT CROPS. IT LEADS THE NATION IN MORE THAN 50 OF THOSE COMMODITIES AND PRODUCES MORE THAN 50% OF THE SUPPLY FOR 18 ADDITIONAL COMMODITIES. NOTING THAT MOST OF THESE CROPS ARE SPECIALTY OR NON-PROGRAM CROPS IS CRITICAL TO UNDERSTANDING THE VALUE OF THE PROGRAMS I HAVE JUST DISCUSSED TO BOTH THE ECONOMY OF MY STATE AS WELL AS THE NATION.

MR. CHAIRMAN, THE DEVELOPMENT AND IMPLEMENTATION OF THE NEXT FARM BILL HAS GREAT IMPORTANCE TO THE FARMERS OF MY STATE. WITH OVER $3 BILLION IN AGRICULTURAL EXPORTS, CALIFORNIA'S AGRICULTURAL ECONOMY IS AN IMPORTANT CONTRIBUTOR TO THE NATION'S AGRICULTURAL PICTURE. IT IS MY SINCERE DESIRE TO ASSIST YOU AND

THE MEMBERS OF THIS COMMITTEE IN WRITING A FARM POLICY THAT WILL PUT THE U.S. IN A POSITION TO NEGOTIATE EFFECTIVELY AT THE GATT, CONTINUE TO COMPETE FOR OUR SHARE OF FOREIGN MARKETS AND REGAIN THE CONSUMERS'S CONFIDENCE IN THE SAFETY OF OUR FOOD SUPPLY.

TESTIMONY OF HON. TOBY ROTH, WISCONSIN
BEFORE THE
COMMITTEE ON AGRICULTURE

JUNE 28, 1989

Mr. Chairman, I appreciate the opportunity to appear before the Agriculture Committee today to discuss a most important issue to Wisconsin farmers -- the 1990 Farm Bill.

June is National Dairy Month and it is appropriate that at today's hearing we discuss several of the issues confronting the future success of the dairy industry. In my view, there are three key issues; 1) reform of the milk marketing order system to ensure regional equality, 2) continuing programs to encourage farm exports and 3) maintaining a market-oriented dairy price support program.

Recently, I held a meeting with 25 members of my Agriculture Advisory Committee to discuss their views on current farm policy. The number one issue of concern to these farmers was the milk marketing order system. Specifically, my farm advisors endorsed the goal of regional equality and fairness in calculating the milk marketing orders. Let me explain the problem as I and my advisors see it and then offer a possible solution.

I. REFORM OF THE MILK MARKETING ORDER SYSTEM

It is no secret that the Midwest is one of the nation's most efficient dairy production regions. But in recent years, Midwest dairy farmers have been penalized for their efficiency under existing farm policy.

Milk marketing orders were established in 1933 to safeguard dairy farmers and consumers from great swings in milk supplies and prices. This was a good approach at that time, since milk was an extremely perishable, bulky commodity and preservation technologies were primitive.

Today, the normal economic factors of supply and demand play a minimal role in the price farmers receive for their milk. Although the price per hundredweight for milk itself is virtually the same throughout the 41 nationwide milk marketing orders, a substantial transportation allowance is also factored into the overall payment. Fifty-five years ago, Eau Claire, Wisconsin was selected as the nation's dairy production center and consequently, the further a dairy farmer was from Eau Claire, the higher price he received for his milk.

As a result, dairy farmers in traditional dairy producing states like Wisconsin receive the lowest prices for their milk in the nation while those in other regions receive higher prices. In fact, the gap in prices was further widened in 1985 with the mandated increase in the Class I differentials.

Wisconsin farmers have a tough time rationalizing how a producer in Southeastern Florida can receive upwards of $3.00 per hundredweight more for his milk than a farmer in the upper Midwest. Granted, production costs are higher in the South, but certainly not by $3.00 per hundredweight.

Since 1985, the Class I differentials have helped stimulate greater production in non-traditional dairy producing regions. Moreover, the milk marketing order system effectively prevents Wisconsin dairy farmers from selling their milk in other regions at the higher price, except in times of extreme shortage.

Last March, the U.S. General Accounting Office (GAO) released its conclusion that the milk marketing order system is outdated and should be reformed. The USDA has also concluded that the system could be modified to be more competitive by redistributing producer revenues more evenly among the regions. These two independent reports offer evidence that the time has come for an overhaul of the milk marketing orders.

As a first step toward eliminating the inadequacies of the milk marketing order system, I have introduced H.R. 501, the Milk Marketing Reform Act of 1989. My legislation will repeal the 1985 increases in the "Class I" differentials that have caused such large price variances. More important, H.R. 501 will require the USDA to replace the existing system with four to eight basing points throughout the country.

Rather than singling out the Midwest as the current system does, my plan recognizes that there are other areas in the U.S. with high concentrations of milk that can readily meet the fluid needs of deficit areas. Today, all areas of the country can produce low-cost milk.

The creation of additional basing points will help eliminate price discrepancies between orders and bring fairness back into the system. Under H.R. 501, the national price paid for milk will be the same at each of the base points. New transportation differentials will be created within the regions to reflect more accurately the costs of moving milk to and from the region's base point or natural collection point.

As the dairy industry enters the 1990's, the impetus should be on allowing the price of milk to be governed by fair market forces throughout the country. Restrictions on the transportation of milk in any form between the regions should be lifted and all regions of the country should be brought into the system. If an area of the country is going to take advantage of the federal dairy programs, then participation in the order system should be mandatory.

My goal is to simply bring market competition and equality among the regions back into the milk marketing order system. The milk marketing order system was created during the New Deal era and it's time dairy marketing was brought up to date.

II. FARM EXPORTS

When Congress considered the 1985 Farm Bill, special attention was devoted to expanding farm exports. It is the export provisions of the 1985 Farm Bill that have helped fuel the farm recovery of the past few years. After farm export levels plunged to a low of $26.3 billion in 1986, the past two years have witnessed a steady rebound. Farm export sales reached $35.5 billion in 1988 and the Department of Agriculture predicts that farm exports will top $37 billion in 1989.

The growth in farm exports can be directly attributed to two important programs, the Export Enhancement Program (EEP) and the

Targeted Export Assistance Program (TEA). These two programs have helped recapture old markets and open many new markets that have traditionally been closed to U.S. agricultural products.

As a direct result of the 1985 Farm Bill, the U.S. has now started exporting a substantial volume of dairy products. The Dairy Export Incentive Program of the 1985 Farm Bill helped commercial exporters ship nonfat dry milk by covering the difference between the world price and U.S. price with surplus government stocks. Today, there is no government surplus of nonfat dry milk and with the higher world prices, U.S. exporters are now selling nonfat dry milk on the open market.

The export programs of the 1985 Farm Bill have helped the U.S. compete in international markets and I strongly encourage reauthorization of these important programs. These important programs have bolstered our farm economy and have played a critical role in stabilizing prices for our farmers.

III. DAIRY PRICE SUPPORT PROGRAM

Finally, I would like to express my support for the continuation of a market-oriented dairy price support program. The National Dairy Commission, an 18-member commission set up by the 1985 Farm Bill, issued its recommendations last year. The message -- the dairy industry should first and foremost rely on price to balance the market.

Wisconsin dairy farmers simply want a fair return for their product. They can compete favorably with other regions of the country and in international markets. I believe that if changes are made to realistically reform the milk marketing order system and the emphasis on exports continues, then Wisconsin farmers will receive an equitable market price for their product.

Wisconsin farmers have been through tough times in the 1980s with the depressed land prices and last year's drought. But, they're ready for the challenge of the 1990s and only ask for the chance to compete fairly and equitably. It is time for a truly national dairy policy and I urge the members of the Committee to support this goal.

HONORABLE CONGRESSWOMAN VIRGINIA SMITH
1990 FARM BILL OUTLOOK STATEMENT BEFORE THE HOUSE COMMITTEE ON AGRICULTURE

June 28, 1989

Mr. Chairman, members of the committee, thank you so much for allowing me the opportunity to come before your committee to testify on the development of the 1990 Farm Bill. I appreciate your time and this opportunity.

Just as in 1984 and 1985, when Congress drafted and approved the current farm bill, the 101st Congress will have an equally challenging job in drafting our next farm law.

Conditions were much worse for our farm economy in 1984 and 1985 than they are today. During the early eighties, farm incomes were declining and US agricultural exports were falling both in total value and market share. Our farmers suffered from unstable prices and incomes due to uncontrolled grain reserves and plummeting agriculture prices.

Agriculture isn't out of the woods yet, but today farm incomes are more stable. In 1987 and 1988, we had record farm income. US agricultural exports have regained strength, grain reserves are being controlled better, and millions of acres that should have never been put into production are being placed into the Conservation Reserve Program.

Yes, today is a better day for agriculture in great part because of the success of the 1985 Farm Bill.

However, not all producers have been able recover from the financial turmoil of the early eighties as is proven by the high number of bankruptcies, farm foreclosures, and other financial difficulties still being faced by many rural Americans.

Today as this committee begins consideration of the 1990 Farm Bill, it is important to recall the lessons and successes learned from the 1985 Farm Bill. And now is the time to build upon the success of the current farm law.

As Secretary Yeutter testified before this committee in late-April, I would urge consideration of proposals to reduce the "rigidity" of current programs and allow greater flexibility to producers when making planting decisions. I support an effort to allow a producer to plant both program and nonprograms crops upon base acres without losing ASCS certification on those acres.

In addition, I would urge this committee to expand the recommendation to allow for the planting of "experimental crops" on acres with similar protections in regards to ASCS base certification.

These modifications in planting practices would allow a producer to be more dependent on the market for his/her income and thus more responsive to market signals and demands. In addition, the USDA has reported that such modification would save the American taxpayer approximately $800 million.

ALTERNATIVE AGRICULTURE

As I did during the last congress, I have again introduced a bill, HR 47, to establish a National Institute for New Agricultural and Forestry Industrial Materials.

I am NOT an expert on agricultural research or product development. However, I am very much aware of the high stakes and importance of efforts being made on Capitol Hill and across the nation to focus, strengthen, and commercialize the fruits of our already large-scale investment in agricultural research.

In 1987, a grand total of $10 billion was spent by US corporations, foundations, academics, and local, state and federal governments.

While our current research reveals that there is much promise in the future, problems and confusion are evident in the present system of special interest lobbying.

My bill, HR 47, would assist in better organizing and prioritizing agricultural research efforts, and it would assist in improving the marketing of new agricultural goods and crops.

I commend this committee for its efforts in the 100th Congress on this issue, and I would encourage this committee to continue to push forward by incorporating my bill, HR 47, or similar legislation into the 1990 Farm Bill in an effort to fully address the difficulties of the current agricultural research process.

AQUACULTURE:

Another area of alternative agriculture of great interest to Nebraska's producers is aquaculture.

Currently many research and education programs have been developed to investigate the opportunity aquaculture might provide producers. However, a clearly defined and comprehensive program within the Department of Agriculture is yet to be established.

I would propose that this committee review current lending activities by the Farmers Home Administration so an effective financial assistance program might be made available to fish producers.

In addition, the Extension Service should be authorized to develop a program similar to those currently existing for crop and livestock producers to assist producers in learning how to raise aquatic species.

Another proposal I support is the decentralization of the current Department of Agriculture. Today, Nebraska and other distant states are at a disadvantage when working with a Department located in an urban area.

By transferring divisions of the USDA to regionalized centers, I believe you would create an agency with more understanding that could be more responsive to producers' needs.

I would encourage you to review this proposal in consideration of the new farm bill.

ETHANOL

During his visit earlier this month to Lincoln, Nebraska, President Bush was fully briefed on another growing and promising Nebraska industry--the ethanol industry. In Nebraska and other corn producing regions of this nation, consumers have become informed and are demanding ethanol be made available as a fuel source.

Corn, when processed to alcohol, has proven to be a viable fuel alternative reducing American dependence on foreign oil imports. Further, we must all recognize the positive environmental contributions ethanol provides in reducing pollution and slowing possible global warming.

Continued support for our infant ethanol industry should be expressed by this committee in the new farm law.

CONSERVATION

One of the most controversial issues during discussions of the 1990 Farm Bill will be soil conservation--I know this is an issue of major concern to my producers.

As I have expressed on a number of occasions, I strongly believe that our farmers and ranchers are the best and strongest of environmentalists. No other group in the United States has a more direct interest in protecting natural resources and ensuring that valuable lands are protected for generations to come.

I am a strong proponent of the Conservation Reserve Program (CRP) created in the 1985 Farm Bill. I continue to believe it is important for the Federal Government to pursue a policy to remove highly erodible lands from agricultural production.

The numbers regarding the CRP are impressive. Today, farmers and ranchers have enrolled into the CRP more than 31 million acres of highly erodible and substandard farm ground. This program has saved 574 million tons of soil annually, thus preserving the topsoil on marginal land by slowing erosion.

However, the contracts provided by the Congress will begin expiring in 1996. While this date may seem distant, it is impossible today for farmers and ranchers to fully utilize the CRP without knowing the future options they will be provided once these contracts expire and current payments cease. In the 1990 Farm Bill, the Congress must provide producers with future options beyond 1996.

Also, it was required in the 1985 Farm Bill that owners of highly erodible agricultural land must have a prepared and approved conservation plan no later than January 1, 1990, and these plans must be fully implemented by January 1, 1995. This is both an admirable and difficult goal to achieve.

I support the 1985 Farm Bill in requiring that producers provide and implement conservation plans. However, I would propose that the USDA provide a program to share costs with producers improving lands in an effort to comply with their newly developed conservation plans. The Federal Government also must play an important transition role in providing research data and technical information throughout the implementation of these conservation plans.

GROUNDWATER/ENVIRONMENT

Agriculture chemical use and groundwater water will be another difficult issue the Congress will face during consideration of a new farm law.

Nebraska's producers understand the need and importance of addressing water conservation and protection issues.

I strongly believe a voluntary, cooperative approach between the Federal Government and producers in managing agricultural chemical use in production must be fully developed in the 1990 Farm Bill. Through continued water quality research, the development programs on best management practices, and broadened producer education programs, we would achieve water quality goals and avoid many future water quality problems.

I also believe that the low input sustainable agriculture (LISA) program holds a great deal of promise for the future of agriculture. LISA attempts to address a long-term goal for agriculture and deserves attention for research and development.

However, it is important for this committee to remember that many of the techniques and practices that have been advocated under the LISA title have not yet been fully developed. LISA has not yet become a program suitable for general implementation. In the future, after further work in the areas of Integrated Pest Management and biotechnology, LISA may find data in support of new conservation programs.

FOOD SAFETY

After months of media scrutiny and misreporting, this Congress again finds itself in a situation of reassuring the general public on the quality and safety of the American food supply.

As everyone in this committee room is aware, the US continues to have the safest, most abundant, most diverse, and cheapest food supply in the world. Mr. Chairman, I am confident that every member of congress in this room will continue to keep it that way.

We must continue to base our food safety decisions upon sound scientific data, not public hysteria or media hype. Therefore, I believe that the USDA should serve as the sole source for information on nutrition and food safety.

Mr. Chairman, my Republican Task Force on Agricultural and Rural Communities will be focusing on the issue of food safety and I look forward to providing this committee with our recommendations.

FEDERAL CROP INSURANCE

As this committee meets, the Federal Crop Improvement Commission continues to draft a final report to be provided to the Congress the first week of July. Like many, I am looking forward to the opportunity to review this report and the final recommendations this commission has reached on modifying our current federal crop insurance program.

Like many, I applaud the concept of establishing a voluntary crop insurance program to respond to natural disasters, but I am dismayed by our Federal Crop Insurance Corporation's past difficulties and failures.

As the House Agriculture Committee considers the 1990 Farm Bill, I am hopeful that steps will be taken to institute changes in the current FCIC program to expand crop insurance coverage and availability. Further, crop insurance must be made financially affordable and attractive to both the small and average producer.

Rest assured, I will be reporting back to this committee on my thoughts once the final recommendations of the commission are made available.

TRADE

Many have argued that this Congress will not draft the next farm law, but rather it will be written by negotiators at the Uraguay Round of the GATT talks in 1990. Those who believe that are wrong. Without any doubt, Congress will have the last word on US agricultural policy.

I strongly believe that the United States must continue to be an aggressive international exporter of agricultural goods. The export enhancement program (EEP) has proven to be an effective and efficient marketing tool and has helped to re-establish the United States' international reputation as a stable and effective world supplier of grains.

I urge continued support for the EEP from this Committee, the Congress, and the Bush Administration.

SUGAR

In light of other recent developments in the GATT talks, the American sugar program is currently under evaluation and examination by industry and international trade experts.

While the US has been found in violation of the GATT agreement, I suggest that this committee utilize the 1990 Farm Bill as the appropriate legislative package to address this quota inequity.

I continue to stand strongly behind the current US sugar program. It is proven to be both budget neutral and effective in providing a stable US sugar supply. The continuation of such a program is in the best interest of both consumers and producers.

RURAL DEVELOPMENT

Congress must see that rural communities have an adequate public transportation system--that health care facilities are readily available to rural residents--and that we have a modern competitive education system.

Rural development is not a small special interest Congress can afford to ignore. The transportation, health care, and education and other problems of rural areas, impacts more than one fourth of the US population. They are problems effecting people supplying this Nation food supply and they must be given the attention they deserve.

Rural transportation is a disgrace. Our rural bus and airlines are struggling day to day to provide service to our rural communities.

And just think of what the Federal Government is doing. Our

Government spent $28 in mass transit funds for every $1 spent in rural areas.

Mr. Chairman, the rural health care crisis is all too real and threatening in rural America. While no Nebraska hospital has closed in the last year, many struggle month-to-month to stay open. Already, nearly one-third of 62 counties in my district are without a hospital.

Our rural schools are also struggling to me the demands and changes in our society.

We need to see that these schools have the ability to teach subjects like computer science, the physical sciences, and mathematics at a level comparable to urban schools.

Congress can talk about bringing in businesses, but the simple fact is that without adequate health care, transportation, and education, businesses will not be locating in rural communities.

What all of these leads to, is the fact that the rural infrastructure is eroding because of a lack of attention.

When I retire at the end of the 101st Congress, I want to know that Congress passed a comprehensive rural development bill that addresses these concerns.

I want to leave knowing that Congress has indeed recognized the necessity of seeing that rural communities have the same consideration and the same services our urban neighbors receive.

CONCLUSION

With the development of the 1990 Farm Bill, we are provided a new opportunity to make the future brighter for agriculture. Recent years have proven positive, but added flexibility and understanding in current federal policy would dramatically enhance the current situation.

I have begun to receive responses to a survey I mailed to producers in my district and they are expressing increasing optimism for agriculture. While only a small percentage of the surveys have been returned, they are indicating that we must continue our progress with a policy that allows producers to grow for the marketplace, not the government.

Working together with you, I know we will succeed.

Thank you.

-- end--

STATEMENT OF THE HONORABLE JIM SLATTERY
BEFORE THE
HOUSE AGRICULTURE COMMITTEE

JUNE 28, 1989

MR. CHAIRMAN, MEMBERS OF THE COMMITTEE, I APPRECIATE THIS OPPORTUNITY TO SHARE MY VIEWS ON THE UPCOMING REAUTHORIZATION OF THE NATION'S BASIC AGRICULTURE AND FOOD POLICIES.

DESPITE THE DROUGHT, THERE IS SOME GOOD NEWS FROM FARM COUNTRY. LAND VALUES INCREASED BY SIX PERCENT IN 1988, THE SECOND CONSECUTIVE YEAR OF INCREASE. FARM DEBT HAS BEEN REDUCED BY 25 PERCENT SINCE 1983, AND DEMAND FOR U.S. FARM PRODUCTS IS STRONG. THE U.S. AGRICULTURAL TRADE SURPLUS, THE LARGEST SINGLE POSITIVE COMPONENT OF OUR TRADE BALANCE, HAS MORE THAN TRIPLED SINCE 1986.

U.S. AGRICULTURE HAS RETURNED TO EXPORT COMPETITIVENESS BECAUSE OF PRICING POLICY, THE EXPORT ENHANCEMENT PROGRAM AND A MORE VIGOROUS EFFORT TO OPEN FOREIGN MARKETS. THE NEXT FARM BILL MUST CONTINUE AN AGGRESSIVE EXPORT PROMOTION POLICY INCLUDING THE EXPORT ENHANCEMENT PROGRAM WHERE NECESSARY.

THE 1990 FARM BILL MUST ALSO CONTINUE AND BUILD UPON OUR COMMITTMENT TO SOIL CONSERVATION. I AM ESPECIALLY CONCERNED THAT WE MEET CONSERVATION COMPLIANCE GOALS AND THAT WE REDUCE SOIL LOSS IN A WAY THAT IS FAIR TO THE FARMERS WHO MUST IMPLEMENT THE PROGRAM. I STRONGLY SUPPORT TARGETING OF CONSERVATION COST SHARE FUNDS TO AREAS OF GREATEST NEED. FARMERS MUST NEVER BE ASKED TO CHOOSE BETWEEN SOIL CONSERVATION AND FINANCIAL SURVIVAL.

WHILE I BELIEVE THAT THE BASIC STRUCTURE OF THE 1985 FARM BILL SHOULD BE RETAINED, SOME ADJUSTMENTS MUST BE MADE.

MR. CHAIRMAN, I BELIEVE THAT IT'S TIME TO PUT CROPPING DECISIONS BACK IN THE HANDS OF FARMERS. AS YOU KNOW, I HAVE INTRODUCED H.R. 873 WHICH WOULD ALLOW FARMERS TO RETAIN FULL BASE ACREAGE WHILE GROWING SUBSTITUTE CROPS--SOYBEANS, OATS, OR NON-PROGRAM CROPS--ON FARM PROGRAM BASE ACRES. OTHER PROPOSALS WOULD ALLOW FARMERS TO SHIFT BASE ACREAGE AMONG PROGRAM CROPS OR END INDIVIDUAL CROP BASES ALTOGETHER IN FAVOR OF A SINGLE NORMAL CROP ACREAGE (NCA). I BELIEVE THAT THESE PROPOSALS ALSO HAVE A GREAT DEAL OF MERIT.

FARMERS NEED FLEXIBILITY TO RESPOND TO CHANGING MARKET

CONDITIONS AND IMPROVE PROFITABILITY. I STRONGLY BELIEVE THAT MY BILL ALSO WILL REDUCE FARM PROGRAM COSTS BY MAKING IT EASIER FOR FARMERS TO SEEK PROFITABLE ALTERNATIVES TO PROGRAM CROPS.

IN RECENT YEARS, THE KANSAS STATE BOARD OF AGRICULTURE HAS BEEN WORKING TO ENCOURAGE PRODUCTION OF ALTERNATIVE CROPS SUCH AS RAPESEED AND CANOLA. I SUPPORT PROVISIONS OF THE 1988 DISASTER ASSISTANCE EXTENSION ACT THAT ALLOW PRODUCTION OF THESE AND OTHER ALTERNATIVE CROPS ON PROGRAM CROP BASE ACREAGE DURING 1990. CONGRESS SHOULD EXPAND UPON THIS AUTHORITY IN THE 1990 FARM BILL.

ANOTHER FACTOR THAT MAY REQUIRE CROPPING CHANGES IS SOIL CONSERVATION. IN NORTHEAST KANSAS, WE HAVE SOME OF THE MOST DIFFICULT CONSERVATION COMPLIANCE PROBLEMS IN THE NATION. IN SOME COUNTIES IN MY DISTRICT AS MUCH AS 80 PERCENT OF ALL CROPLAND IS HIGHLY ERODIBLE.

DESPITE THE BROAD AVAILABILITY OF ALTERNATIVE CONSERVATION SYSTEMS, EXTREME SITUATIONS CONTINUE TO REQUIRE A COMBINATION OF MEASURES INCLUDING EXPENSIVE TERRACE SYSTEMS WHICH COST, ON AVERAGE, $350 PER ACRE IN SOME NORTHEAST KANSAS COUNTIES.

CROP SUBSTITUTION IS AN ADDITIONAL TOOL THAT CAN HELP

FARMERS CONTROL EROSION WHILE DEFERRING OR SPREADING OUT THE HIGH COST OF TERRACES. FOR EXAMPLE, SCS CONSERVATION COMPLIANCE GUIDELINES IN NORTHEAST KANSAS INCLUDE THE OPTION OF SUPPLEMENTING CROP RESIDUE COVER WITH TEMPORARY SOD STRIPS, EITHER ALONG THE CONTOUR OF THE LAND OR IN THE AREAS OF FIELDS WHERE GULLIES ARE LIKELY TO DEVELOP. FOR FARMERS WHO EVENTUALLY WANT TO REPLACE THESE STOP-GAP MEASURES WITH TERRACES, BASE ACREAGE SHOULD BE PRESERVED.

I BELIEVE THAT SECRETARY YEUTTER HAS THE AUTHORITY TO ALLOW SUBSTITUTION IN THE CONTEXT OF AN APPROVED CONSERVATION PLAN, JUST AS THE AUTHORITY EXISTS TO ALLOW CROP ACREAGE BASE EXCHANGES. I HAVE ASKED THE SECRETARY TO EXERCISE HIS AUTHORITY, BUT TO NO AVAIL. PERHAPS EXPLICIT AUTHORITY, IN THE CONTEXT OF RECONCILIATION, WOULD HELP ENSURE THE SATISFACTORY IMPLEMENTATION OF CONSERVATION COMPLIANCE PLANS WHICH INCLUDE THESE MEASURES.

A GREAT DEAL OF INTEREST IS BEING GENERATED BY THE CONCEPT OF LOW INPUT SUSTAINABLE AGRICULTURE (LISA). I BELIEVE THAT REDUCING OUR RELIANCE ON CHEMICAL FERTILIZERS AND PESTICIDES WARRENTS FURTHER INVESTIGATION THROUGH RESEARCH AND ON-FARM

EXPERIENCE.

FARM PROGRAMS SHOULD NOT MANDATE OR ENCOURAGE THE ADOPTION OF LOW INPUT AGRICULTURE. NOR SHOULD THEY ENCOURAGE THE EXCESSIVE USE OF COMMERCIAL FERTILIZERS AND CHEMICALS. FARMERS SHOULD HAVE A CHOICE, FREE OF GOVERNMENT INFLUENCE. IF A FARMER IN NORTHEAST KANSAS WANTS TO ROTATE HIS CORN BASE TO CLOVER HE SHOULD NOT BE DISCOURAGED FROM DOING SO. GIVING FARMERS MORE FLEXIBILITY IN CROPPING DECISIONS WILL REDUCE THE RISK TO FARMERS WHO CHOOSE TO TRY ALTERNATIVE PRODUCTIONS METHODS.

ANOTHER AREA OF BROAD CONCERN IS THE ESTABLISHMENT OF FARM PROGRAM PAYMENT YIELDS. I APPLAUD THE COMMITTEE'S ACTION TO ALLOW FARMERS TO REPORT PROVEN YIELDS TO ASCS IN 1989 AND 1990.

IT IS ESSENTIAL THAT A MECHANISM FOR UPDATING FARM PROGRAM YIELDS BE INCLUDED IN THE NEW FARM BILL. FOR MANY NORTHEAST KANSAS PRODUCERS, 1981 TO 1985 WERE UNCHARACTERISTICALLY POOR YEARS. MANY PRODUCERS SUFFERED DROUGHT OR EXCESSIVE MOISTURE IN THREE OF THOSE FIVE YEARS. THE 1985 FARM BILL LOCKED IN THE EFFECT OF THOSE DISASTERS FOR THE DURATION OF THAT LEGISLATION.

AT THE VERY LEAST, THE NEW FARM BILL SHOULD ALLOW THE USE OF THE 1989 AND 1990 YIELD DATA TO UPDATE THE CURRENT FARM PROGRAM PAYMENT YIELDS. I STRONGLY URGE THE COMMITTEE TO AVOID RIDGED FORMULAS THAT LOCK IN PAST PROBLEMS.

IN CLOSING, I WANT TO STRONGLY EXPRESS MY SUPPORT FOR A NEW CROP INSURANCE PROGRAM. I AM HOPEFUL THAT WE CAN DEVELOP AN ADMINISTRATIVELY SIMPLE, REASONABLY PRICED PRODUCT THAT IS FLEXIBLE ENOUGH TO MEET THE NEEDS OF FARMERS WITH A WIDE VARIETY OF PRODUCTION RISKS AND FINANCIAL CIRCUMSTANCES.

IF DROUGHT ASSISTANCE IS NOT ULTIMATELY EXTENDED TO SPRING-PLANTED CROPS, FARMERS IN MY DISTRICT COULD EASILY BE CAUGHT BETWEEN AN INADEQUATE CROP INSURANCE PROGRAM AND THE FACT THAT THEIR DROUGHT IS TOO SMALL TO ATTRACT THE ATTENTION OF THE POLITICAL COMMUNITY. WHILE THIS COMMITTEE HAS BEEN VERY RESPONSIVE TO THE NEEDS OF THESE PRODUCERS, THE BUSH ADMINISTRATION'S SUPPORT FOR SUCH ASSISTANCE IS FAR FROM CERTAIN.

I'M READY TO WORK WITH THE MEMBERS OF THIS COMMITTEE IN ANY WAY POSSIBLE TO HELP BUILD UPON AND IMPROVE THE 1985 FARM BILL. AGAIN, THANK YOU FOR THE OPPORTUNITY TO SHARE MY VIEWS ON THIS IMPORTANT LEGISLATION.

TESTIMONY OF HON. CLIFF STEARNS, M.C.
BEFORE
HOUSE COMMITTEE ON AGRICULTURE
28 JUNE 1989

Mr. Chairman, and colleagues on the House Committee on Agriculture, I thank you for this opportunity to testify today regarding the 1990 Farm Bill

Agriculture is critical to the State of Florida's economy. Nearly a million people - one in five of Florida's work force - are employed in agriculturally related jobs. More than 40 billion dollars worth of overall economic activity is generated by the food and agriculture industry and related businesses every year.

After tourism, agriculture is Florida's largest industry.

Florida's 6th Congressional District, which I represent, encompasses much of north/central Florida, including the cities of Ocala and Gainesville. It is blessed with acres of farmland and an abundance of beautiful lakes, rivers, and streams. Like the rest of Florida, agriculture related business employs many of my constituents.

I made it a priority to talk with farmers throughout my district about issues that directly affect their industry. Their concerns generally fall into three categories: trade, environment, and research.

Florida's farmers, and farmers across the country, are deeply concerned about trade because four of every ten U.S. acres go for export each year.

In this Congress, we need to work with the administration to level the playing field and knock down trade barriers. I am supportive of agreements similar to the one signed last year by the Reagan/Bush administration to end Japanese quotas for beef and citrus products. This agreement was achieved after some tough negotiating, and it will result in more than one billion dollars in agricultural exports to Japan a year.

Over a reasonable period of time, we should pursue negotiations to end subsidies that distort markets and restrict trade. However, we must act in concert with our trading partners, not unilaterally.

I am aware that the protection of soil and water resources will be high on your agenda. Many of my constituents have expressed their desire for continued protection of these precious resources. Currently, half of all U.S. residents and 95 percent of all rural Americans rely on groundwater for drinking. Contamination of this groundwater and surface water by agricultural pesticides has become an increasing concern.

However, I strongly urge you to take every precaution before imposing new, wide ranging restrictions and regulations on farmers.

Because of Florida's unique soil, climate and growing conditions, the food and agriculture industry will always need some chemicals to successfully compete in world and domestic markets. We must insist on a climate of reasoning before regulation. To demand regulation without regard to the economic impact of that regulation on business enterprises is unrealistic.

It is also important to recognize the interlocking relationship between research and technology, agricultural profitability, and environmental quality.

Research traditionally plays a critical and cost effective role in maintaining the economic strength of the agricultural sector. The success of the food and agriculture industry has been based on technology and research.

I am very fortunate to have one of our nation's most distinguished land-grant universities in my district - the University of Florida in Gainesville. Its Institute of Food and Agricultural Sciences, better known as IFAS, is a leader in agriculture research. Its research supports Florida's 40 billion dollar food, agriculture and natural resource industries and delivers science-based information to consumers on a wide variety of topics - including soil, water and food quality.

IFAS is committed to work together with industry and regulatory agencies to develop appropriate technology, evaluate it, and employ it. This approach not only eases environmental pressures, but also enables our farmers to earn a living.

Congress needs to support agricultural research and education programs similar to the University of Florida's Institute of Food and Agriculture Sciences. The future competitiveness of American agriculture depends on the creative and innovative research produced by these institutions.

Thank you once again for this opportunity to testify. I stand ready to assist you in any way to help America maintain its world leadership in agriculture.

STATEMENT OF REP. LINDSAY THOMAS
TO THE FULL HOUSE AGRICULTURE COMMITTEE
WASHINGTON, D.C.
JUNE 28, 1989

IT IS A GREAT PRIVILEGE TO BE BACK WITH MY COLLEAGUES ON THE COMMITTEE ON AGRICULTURE.

THAT IS NOT TO SAY THAT MY NEW COLLEAGUES ON THE APPROPRIATIONS COMMITTEE ARE TREATING ME BADLY. IT IS JUST THAT I NOTICED THAT TWO THINGS HAPPENED IMMEDIATELY AFTER I LEFT THIS DISTINGUISHED COMMITTEE:

FIRST, THE APPROPRIATIONS COMMITTEE BEGAN TO RUN OUT OF MONEY, AND I HAVE SPENT MOST OF MY TIME SAYING NO WHEN CONSTITUENTS COME TO ME TO SEEK HELP.

SECOND, SHORTLY AFTER I LEFT THE AGRICULTURE COMMITTEE, THE FARM CRISIS BEGAN EASING UP AND EVERYONE BEGAN SINGING THE PRAISES OF THIS COMMITTEE'S WISE WORK IN ENACTING THE LAST FARM BILL.

SO MR. CHAIRMAN, I AM BACK TODAY TO OFFER A FEW COMMENTS AS YOU BEGIN WORK ON THE NEW FARM BILL. I HOPE THAT MY THOUGHTS WILL BE WORTHY OF YOUR ATTENTION. BUT MOST OF ALL, I HOPE THAT WHEN YOU PASS ANOTHER GREAT FARM BILL, YOU WILL LET ME TAKE CREDIT FOR SOME SMALL PART OF IT.

SERIOUSLY, AS A FORMER MEMBER OF THIS COMMITTEE WHEN IT WORKED ON THE 1985 FARM BILL, I REALIZE THE MEMBERS ARE FACING AN EVEN MORE DIFFICULT CHALLENGE IN 1990. WE FACE A SITUATION WHERE THERE IS NO UNDERSTANDING AMONG NON-FARM ORIENTED MEMBERS OF CONGRESS THAT AGRICULTURE IS STILL VERY VULNERABLE TO ANOTHER CRISIS, AND WE FACE A TIME WHEN THE PRESSURE OF DEFICIT REDUCTION GREATLY RESTRICTS THE RESOURCES WE HAVE TO WORK WITH. SO I DO NOT ENVY YOU IN YOUR TASKS.

IN THAT CONTEXT, I WOULD LIKE TO EXPRESS MY FULL SUPPORT OF THE CONTINUATION OF THE TOBACCO AND PEANUT PROGRAMS. QUITE FRANKLY, THESE ARE AMONG THE LEAST UNDERSTOOD OF ALL AGRICULTURAL PROGRAMS AMONG THE GENERAL PUBLIC. YET, IRONICALLY, THEY ARE AMONG THE MOST SUCCESSFUL. BOTH PROGRAMS OPERATE AS NO-NET-COST PROGRAMS, RESULTING IN ONLY VERY SMALL GOVERNMENT OUTLAYS FOR ADMINISTRATIVE PURPOSES.

I WOULD LIKE TO POINT OUT THAT THERE SHOULD BE NO CONFLICT BETWEEN THIS COMMITTEE AND HEALTH CONSIDERATIONS ON THE TOBACCO PROGRAM. THE PROGRAM DOES NOT SUPPORT OR ENCOURAGE GROWTH OF TOBACCO. IT SIMPLY PROVIDES FOR ORDERLY GROWTH AND MARKETING OF THE COMMODITY, WITH THE PRODUCERS COVERING THE COST OF ANY SURPLUS LEAF THROUGH AN ASSESSMENT PAID ON EVERY POUND SOLD.

IT SHOULD ALSO BE NOTED THAT TOBACCO IS A HIGH-COST AND DIFFICULT COMMODITY TO GROW. THE EQUIPMENT AND CULTIVATION PRACTICES IT REQUIRES ARE VERY COSTLY, AND SO AN ORDERLY MARKETING PROGRAM IS ESSENTIAL.

WHILE THE LEGISLATION THAT GUIDES THE TOBACCO PROGRAM IS INDEPENDENT OF THE FARM BILL, THERE HAVE BEEN EFFORTS IN THE PAST TO TIE THE TWO TOGETHER. THIS IS NOT THE TIME NOR PLACE TO DO THAT. UNFORTUNATELY, MANY CRITICS OF THE PROGRAM DO NOT REALIZE IF THE PROGRAM WERE TO BE DISBANDED OR GUTTED IN ANY MANNER, THE GROWING OF TOBACCO IS NEVERTHELESS VERY LEGAL AND IT WOULD SIMPLY BECOME MORE WIDESPREAD.

THE ULTIMATE RESULT WOULD BE GROWTH OF TOBACCO IN NON-TRADITIONAL AREAS WITH CONSIDERABLY MORE LEAF AVAILABLE IN THE MARKETPLACES, SO THAT PRICES WOULD UNDOUBTEDLY DROP. PARADOXICALLY, WE COULD SEE THE PRICE OF TOBACCO DROPPING SO LOW THAT THE PRICE OF TOBACCO PRODUCTS COULD DROP TO A POINT WHERE THE PUBLIC WOULD BE LIKELY TO CONSUME MORE.

SECOND, I WOULD LIKE TO EXPRESS MY CONCERN OVER THE REPEATED EFFORTS TO PLACE A CAP ON THE AMOUNT OF MONEY WHICH AN INDIVIDUAL PRODUCER CAN RECEIVE ON GOVERNMENT BENEFITS. AS THIS COMMITTEE GOES ABOUT ITS DIFFICULT TASK, I HOPE IT WILL RECOGNIZE THE FACT THAT MANY FAMILY FARMERS MUST FARM LARGE ACREAGE TRACTS DUE TO THE NATURE OF THE CROPS THEY GROW.

NEVERTHELESS, THESE ARE FAMILY FARMERS AND AS SUCH SHOULD NOT HAVE THEIR PAYMENTS PLACED UNDER EVEN FURTHER LIMITATIONS THEN ARE ALREADY IMPOSED. FOR THIS REASON, I HOPE THE COMMITTEE WILL REALIZE PAYMENT LIMITATIONS SHOULD BE JUDGED ON THE NATURE OF THE OPERATION AND NOT JUST THE SIZE.

FINALLY, I WOULD LIKE TO SHARE SOME THOUGHTS ON A SUBJECT THAT I CONTINUE TO WORK ON DESPITE MY ABSENCE FROM THIS COMMITTEE, AND THAT IS THE IMPORTANCE OF PRESERVING OUR NATION'S WETLANDS AND FORESTS. THESE ARE AREAS THAT MAY BE ON THE PERIPHERY OF AGRICULTURAL CONCERNS BUT ARE IN FACT DEEPLY RELATED TO AGRICULTURE'S WELL-BEING. FOR THAT REASON, I HOPE THE COMMITTEE WILL CONTINUE TO DO EVERYTHING IN ITS POWER TO SAVE OUR FRESHWATER WETLANDS.

IT SHOULD BE NOTED THAT WETLANDS ARE SOURCES OF CLEAN WATER. THOSE WETLANDS PLAY AN INTERGRAL PART IN THE REMOVAL OF CHEMICAL RESIDUE AND THE BREAKDOWN OF AGRICULTURAL RUNOFFS AND NITROGEN POISONINGS.

FURTHERMORE, THE WETLANDS NOT ONLY PURIFY AND STORE CLEAN WATER, THEY INFLUENCE THE CLIMATE AND OUR COUNTRY'S WEATHER PATTERNS. IN SHORT, WETLANDS ARE AS VALUABLE IN THE OVERALL SCHEME AS PRIME PRODUCTIVE LANDS.

I APPLAUD THE WORK BEING UNDERTAKEN BY THIS COMMITTEE. YOU ARE TACKLING A HERCULEAN TASK IN A DIRECT, WELL-PLANNED, AND THOUGHTFUL MANNER.

THE CHAIRMAN HAS FREQUENTLY REMINDED US THAT POLITICS IS THE ART OF THE POSSIBLE. TO PARAPHARSE HIM, I WOULD SAY THAT AGRICULTURAL LEGISLATION IS TRULY ACCOMPLISHING THE ART OF THE IMPOSSIBLE. I HAVE FULL CONFIDENCE THAT THIS COMMITTEE WILL ACCOMPLISH THAT GOAL IN A MANNER THAT CONTINUES THE UPSWING FOR OUR FARM SECTOR THAT HAS CHARACTERIZED THE LAST FIVE YEARS.

THANK YOU VERY MUCH FOR YOUR ATTENTION.

TESTIMONY OF
ROBERT W. KASTENMEIER, M.C.
before the
House Committee on Agriculture

Hearings on the 1990 Farm Bill
June 28, 1989

Mr. Chairman, members of the Committee, I want to thank you for this opportunity to submit testimony as you begin the lengthy process of putting together the 1990 Farm Bill. I think it is good that you are getting an early start on that process, and I hope this will lead to an early consideration of the legislation itself in the second session of the 101st Congress.

The State of Wisconsin is, of course, known as the nation's dairy state, and we are proud of that designation. Sometimes, however, our dairy reputation tends to conceal the fact that the State is a leading producer of many other commodities, including corn, soybeans, peas and other vegetables, apples and cherries, potatoes, livestock and much, much more, including wheat and a developing winery industry. We may be the leading dairy state, but we have diverse agricultural production.

The task before this Committee is a prodigious one. Our national commitment to a sound agricultural economy has long been based on programs aimed at ensuring a plentiful supply of high-quality food products at reasonable prices, while ensuring the economic stability of American farmers. To that mix, we must add a consideration of maintaining farm exports and minimizing the adverse impact of agriculture on our environment while limiting costs to the federal treasury.

\ In considering new farm policy, we must ask ourselves how we meet those goals. We have long demonstrated our ability to produce products in abundance. We need to take care that budgetary considerations do not allow product quality and safety to wane. American food products have always been a bargain for the American consumer, and they become more so each year. The 1985 farm bill has returned farm income to the levels seen in the late 1970's, but the bulk of that income comes from the federal treasury, and that is not a sustainable policy in a deficit economy.

We can maintain our position in world markets, but it makes no sense to do so by selling our commodities at prices below the cost of production. We must rid ourselves of the notion that we can commandeer the world marketplace by undercutting the prices of other nations. We should seek strong world market prices as a means of lifting the economies of the world while enhancing the profitability of our own farms. Environmental concerns will play a larger role than ever before in the establishment of farm policy.

But the overriding pressure driving the policy inherent in the 1990 Farm Bill will be budgetary. The cold facts are these. Left to a totally free market, American farmers will overproduce and lower prices to levels that will not sustain the costs of production. Direct government subsidies aimed at ensuring that production while compensating farmers are too costly.

I believe we have no choice but to move to programs that grant farmers the discipline they lack as individuals to collectively manage the supplies of their products in order to ensure a profitable price. Such supply management must be done in tandem with the other major agricultural producing nations of the world. We can, and we must, follow the lead of the European Community, and work together to enhance our agricultural economies.

I am the author of HR 1137, pending before this Committee, which would create a two-tier pricing, supply management program for dairying. My bill is based on a proposal from Associated Milk Producers Inc. and has been developed through the broad participation of dairy farmers from around the nation in a grassroots effort. The general proposal has the endorsement of National Farmers Union, NFO, AAM, AMPI, and others. In addition, the Mid-American Dairymen cooperative has endorsed the broader concept of supply management.

Under my bill, farmers would be granted a base based on their historical production and would reduce or increase their annual production in accordance with changes in consumption levels of dairy products as estimated by the Secretary of Agriculture. Assessments would be charged for any over-quota production, thereby providing farmers with two prices ... one price for quota production and another for over-quota production.

There are those who argue that such a program would be difficult to administer, but it would be less difficult than the current crop setaside and diversion programs, particularly because the marketing of dairy products already involves better record-keeping of the movements of milk. Some would say that the federal government ought not to manage the supplies of milk. I maintain that our current policy of continuing decreases in the farm price of milk is nothing less than supply management in its cruelest form ... we lower production by dropping the price and knocking dairy farmers out of business.

My bill attempts to forestall the development of a "market" in dairy bases by tying the base to milking facilities. This would avoid the situation where retired dairy farmers continue to enjoy farm income by renting or selling their base to another farmer. This is a concern that has been often expressed to me, but I think the bill effectively deals with what is, to an extent, an over-stated problem. The plain fact of the matter is that any program or development that raises farm profitability in turn raises the value of farm operations. If we keep the base from being a tradable commodity, we should minimize any problems.

Others argue that supply management will act as a barrier to new farmers who want to enter dairying, although I fail to understand how a constantly lower price for milk is going to attract new dairy farmers. Nonetheless, my bill retains one-percent of the national base each year for new farmers, and establishes priorities for distributing or redistributing bases.

Finally, my bill would maintain the current dairy program, although acquisitions by USDA would be kept to a minimum ... just enough to supply commodity distribution programs and maintain a buffer of supplies to protect against potential shortfalls.

I have another bill pending before the Committee that directs the Secretary of Agriculture to establish a single, nationwide milk market order. That bill is aimed at correcting distortions in the market order system that I believe were created when differential payments in most parts of the country were increased in 1985. I do not seek a reduction in dairy farm prices anywhere in this country. I do support modifications in the market order system that will recognize the pivotal role played in milk production by already existing dairy farmers in the upper-midwest and end a bias aimed at creating increased milk production where it does not historically exist.

My friend, Congressman Obey, is the co-author of those two bills. Likewise, I am a cosponsor of his bill to remove the Secretary's authority to reduce the support price for milk next January 1. I would urge the Committee to be mindful that the results of another price cut will be to drive dairy farmers out of existence.

With regard to other commodity programs, much has been said and written in recent years about supply management, and there has been much huffing and puffing in opposition to proposals like the Harkin-Gephardt bill in the last Congress on the part of the Reagan and Bush Administrations. At the same time, we have in fact been practicing supply management in the form of the setaside and paid diversion programs.

I suspect that any modifications made in our crop programs will be relatively minor. I do think we need to ask ourselves why the setaside and diversion programs haven't been more effective. The simple answer lies in the fact that both rely on reducing production by limiting the number of acres planted. Rarely has so much been spent to accomplish so little. These programs have idled less productive land and have promoted a policy of pouring on the pesticides and fertilizers in order to maximize production on the acreage that is planted. This cannot continue.

We need to move to supply management options that are based on bushels produced rather than on acres planted. This will ease the pressure to maximize production on any acreage. It will promote the use of Low Input Sustainable Agriculture, or LISA, and thereby address a demand this Committee is sure to be hearing this year. It is sound agricultural policy.

A way will have to be found to deal with natural fluctuations in the productivity of a piece of land from year to year. When Berkely Bedell was a member of this Committee, he used to talk of a market certificate program, and there may still be much merit in that proposal. But a way must be found to deal with surplus bushels produced beyond ones quota.

I believe the Committee needs to concern itself with our food quality. The spotty nature of our food inspection is becoming of increasing concern. The quality of food imports, especially dairy product imports, needs more stringent review. Spot checks at meat processing plants leave consumers uneasy about the groceries they buy. Likewise, the old complaints we used to get about the quality of our grain exports are beginning to resurface. We need to mind our store.

Finally, I would like to close by mentioning an item that is not necessarily a matter for the 1990 Farm Bill. I am the Chairman of the House Judiciary Subcommittee with jurisdiction over the U.S. Patent Office. As you know, the Patent Office has begun to issue patents for genetic engineering in animals.

Last year, the House passed a bill I introduced granting farmers an exemption from animal patents. The Senate did not take action on the bill. I have introduced it again and it is my hope to move it through the Congress following the August recess. This bill will not pass without the active support of farmers, farm organizations, and farm Congressmen, however. Potentially, we may face an active opposition from the biotech community, and I need your support if we are to grant farmers this exemption.

There is a much broader concern than just the question of patents, however. I have also introduced a bill establishing a regulatory framework for research into genetic engineering. That bill would give USDA authority over genetic engineering in food animals, and require researchers to gain approval from USDA before research is undertaken. It also would grant EPA authority over the release of genetically-altered animals into the wild, and would maintain a regulatory role of NIH for research animals. As a result, jurisdiction over my bill is shared by three different Committees. I would hope that this Committee would take the proposal under serious consideration.

Mr. Chairman, I want you to know that I am willing to assist the Committee in any way that I can as we move towards markup of the 1990 Farm Bill, and I would like to encourage the Committee to hold field hearings in the State of Wisconsin. Thank you.

GOVERNMENT'S BASIC ROLE IN AGRICULTURE IS TO ASSURE FOOD SUPPLIES

by Governor George A. Sinner
State of North Dakota

BACKGROUND

We are clearly in a time of great flux. Agricultural policy at the government level, at all levels, is changing. The last decade was probably one of the toughest extended periods for agriculture with rapid changes in exports, value of farm land, grain and livestock inventory, and interest rates. We had record fluctuations in commodity prices. Farm program costs went from nearly zero to nearly equal to farm income.

In addition to these drastic changes in values and price, in 1988 the agricultural sector experienced the worst drought in fifty years, leaving us with the lowest food reserves since about 1973.

All of this took place without any fundamental change in farm policy. Ag policies didn't cause, nor were they able to alleviate, the problems. I consider the long period of a very bloated dollar to be a major cause of agriculture's problems in the 1980's.

The value of the dollar rose 70 percent from 1981 to 1985. When it finally reversed its trend, huge damage had been done. It has risen again between 20 and 30 percent since last January. This is a major concern for agriculture. And even though things are looking a little better for ag, it's difficult to tell how markets will be affected. No one knows what will, in fact, be the repercussions of our drastically lowered food reserves.

Global production, dependent on the vagaries of weather, will largely dictate the outcome. But public policy that recognizes history's periodic food shortages is important too. Thoughtful policy makers know that even a brief shortage can cause horrible human suffering.

GATT ISSUES

And so we should go into GATT negotiations with strong policies in place to protect and preserve the American farm economy from strong international policies that derive from an acute awareness of this historical fact: Starvation is unacceptable.

Yet, there appears to be a basic ideological struggle currently going on between an Administration in pursuit of "free trade" and a Congress concerned about maintaining a healthy domestic agricultural economy. God knows we all treasure our free enterprise system . . . but realistically, we cannot glibly translate belief in that into an unrealistic dependence on "free trade" in food.

Whatever the outcome of the GATT talks, our 1990 farm bill must provide strong government support for U.S. agriculture.

Those policies put in place by congress should not be erased by the GATT negotiators.

We should not give away our sugar program before we get to the negotiating table. Nor should we demand that other nations give up the right to produce domestically a fundamental food supply -- say seventy-five per cent of domestic needs. Many of those nations have been hungry.

And there are other facts: let's just look at the exchange rate issue for a minute. How could this trade system really work with an exchange rate that either side can manipulate? Just think about this: in the United States, the average net profit of our retailers averaged between 2.5 and 3 per cent of gross sales. Now governments can skew currency values more than that overnight. Strangely, it doesn't bother those people who proclaim the "free trade" euphemism to manipulate currency values both unilaterally and multilaterally -- they do it all the time. And of course they must, because no one has looked seriously at a way to stabilize rates.

As a result, to undertake this kind of open trade, without starting the process of unifying these currencies, is madness. In my judgment we absolutely must begin the process of finding an answer to the volatility of currency values and exchange rates, or at least a way to cope with them.

If there were no other way, we should adopt a policy using a ten-year moving average for an exchange rate base and of correcting deviations from that ten-year moving average with a tariff. If we can't cover the whole deviation, we may be able to cover two-thirds or three-fourths of it to keep countries from playing games with each other and to force them to recognize the harsh realities of the marketplace.

We saw new evidence of another new factor last year. We saw a really strange phenomenon with food reserves dropping to almost historic lows, with amazingly little concern among consumers or the grain and livestock markets. The consuming public and the food industry has become complacent about the ability of world farmers to produce safe and affordable food. No one holds reserves except producers and first processors. This no-inventory, empty pipeline syndrome, is not peculiar to food, but this is our most vulnerable area.

This is what appears to have brought it on: first, and fundamentally, we have had 45 years of almost completely uninterrupted shipping in the world. In this 45 years, all anyone had to do to have a boat load of wheat or a boat load of rice delivered is to announce a need. Almost instantly the boat was at the dock. As a result of this, reserves were gradually pushed back in the hands of producers and first processors.

Secondly, during this same period, a very reliable futures market developed which allows processors or importing nations to buy the paper instead of the product. That again pushes product back into the hands of principally residual suppliers.

In the 1970's the third phenomenon that further exacerbated the trend toward empty pipelines was double digit interest rates. Who could afford to carry reserves with 16-18-20 percent interest rates? And so again there was a further pushing back and dilution of a sense of urgency of reserves because the practicality of it was you couldn't afford it anyway.

And then came the 80's and the highest real interest rates in history (at least in the U.S.) became the final financial drag that totally emptied the pipeline. By the end of 1986 or 87, the United States sat holding two-thirds of the world's food reserves -- clearly the world's residual supplies.

This was followed by a drought in which we saw the largest drop of world food reserves in known history and, as I pointed out earlier, very little response from the market.

Now there are some questions that trouble me about this. Is the hand-to-mouth economy possible to maintain? Or are we living in a world that really does have an assured food supply? I personally believe that the answer to both questions is positively no.

Can the world really live without reserves and can governments let it? Again, I don't think so. Is Europe going to rely on a free market? Their people have been hungry. Can India and Africa? Can Japan and those countries that have a vast amount of imports rely on a food economy that lives from hand to mouth? Will they? I don't think so.

Another germane question is will the United States continue to hold two-thirds of the reserves? And the answer, of course, is "No way." Can needed reserves be distributed? That's one thing GATT must work on.

Can we get rid of subsidies? I don't think so. I believe we must retain production subsidies or subsidies to assure some domestic supply, some domestic sourcing, maybe as high as two-thirds or three-fourths of annual domestic needs. I'm sure that's what the Europeans would tell you.

EXPORT ENHANCEMENT PROGRAM

Can we get rid of export subsidies? I think maybe we could do that but only multilaterally. And I think that's a long way away because of the present subsidies, the non-tariff barriers around the world, vast amounts of government ownership, and government marketing. And then, of course, there's the exchange rate problem that I spoke of earlier.

In this regard, let's look at government ownership. We cannot ignore the fact that much farm production is marketed by centralized government marketing agencies. These agencies predictably sell at the market price minus a nickel or a dime and carry virtually no reserve. The United States ends up carrying the whole thing . . . or else playing "price chicken" to win market share, thus driving markets lower and lower.

And so, as you see, we are in an unusual time. We all hope for continued world peace. We all hope for continued production, but history warns us to be careful. With this for background, let me discuss some specifics.

FLEXIBILITY

As it has been discussed thus far, farmers don't like the prospect of decoupling; however, the increased flexibility that proposals offer may be good. The insinuation of being on a welfare dole is objectionable to farmers. The real fact is, as I have explained, that food is so fundamental to human existance that sheer reliance on supply and demand, profit and loss, is simply not realistic, nor in the long range interest of the nation.

Farmers need more flexibility to grow non-program or specialty crops within their allotted acres. Some specialty crop growers may protest this, yet they have seen great benefits because programs have kept specialty crop production lower than it would otherwise have been, thus supporting prices of non-program crops.

The oilseed sector is taking a beating because it can't compete with target prices of program crops. Farmers who have shifted to non-program have been penalized by losing program crop acreage history and are stuck with a low base.

An alternative would be to give these producers back some of their lost acreage bases, or somehow equalize the amount of base among farmers. One idea that has been discussed in North Dakota is to somehow incorporate a percentage of a farm's tillable acres.

To solve these inequities, it may be advisable to create programs for sunflower and soybeans. Resolving this problem is particularly important if we move to more flexibility to grow program and non-program crops.

If there are going to be budget cuts, allowing more flexibility is one way to reduce the pain.

PAYMENT YIELDS AND ACREAGE BASES

The decision in 1985 to freeze program payment yields has caused hardship for many young farmers, and it has created a land market that is driven by acreage bases and ASCS yields rather than the inherent quality of the land. There is no easy way to solve this problem.

North Dakota farmers and farm organizations giving testimony to the Federal Crop Insurance Commission hearing held in Fargo in April, asked that they be allowed to prove yields and use the same proven yield data for FCIC and for ASCS purposes.

Many young or expanding farmers are suffering from their inability to prove yields during the past few years. It is important to allow proving of yields again and to coordinate proven yields for federal crop insurance. This will make the system more equitable. The disparity, among other problems, has created a land market driven by acreage history rather than quality of land.

FEDERAL CROP INSURANCE COMMISSION

We need a system in place that accurately reflects yield histories and crop market values. Without that, the system will continue to reward those with below average yields and the better farmers, who are assumed to be the best insurance risks, won't buy federal crop insurance.

RURAL DEVELOPMENT

As you debate the subsidy question in relation to the 1990 farm bill, you will also be discussing the whole issue of rural development. I would like to suggest that the best rural development program will fail without the support of a healthy agricultural economy. I have made statements to this committee earlier on rural development and will not go into it now.

CREDIT ISSUES

I would like to take this opportunity to compliment you for all the work done to develop and pass the Agricultural Credit Act of 1987. Because of this Act, the Farm Credit System is working its way out of a real morass. The Farmers Home Administration was in such disarray, nothing less could have helped straighten it out. More fine tuning may be needed, but the 1987 legislation has really helped to sort out the problems of the agriculture credit sector.

TARGET PRICES

Target prices have been decreased for the last five years. This cheap food policy controls inflation through farm legislation. Yet farmers are one of the largest consumers of farm implements, services and products that continue to rise in price. An inflation adjustment to raise target prices should clearly be made. This would also send a clear signal to the GATT negotiators that the U.S. intends to support its farmers.

Continuation of the Commodity Credit Corporation loan program is assumed, but marketing loans may be the best answer to keep product moving.

CONSERVATION

We need to figure out what to do with all the land that's already in the Conservation Reserve Program (CRP). Keeping eligibility for wetlands to help farmers providing habitat for wildlife is an extremely valuable tool in wetland preservation. Federal agency takeover of lands has gotten out of hand in the west, at least. A better private - public reward system is far more desirable.

Some counties in my state have met the 25 per cent allowable acreage of CRP and it is hurting the rural economy as some farmers use the program for retirement and relocation. A lot of this land could be farmed very carefully and brought back into production.

WHAT REALLY IS GOVERNMENT'S ROLE IN AGRICULTURE?

Let's look at the philosophical questions about what is government's role in agriculture. I think everywhere, governments have recognized the responsibility to somehow manage the use of land. We always have recognized the federal, state and local government right of eminent domain for roads, for parks, for schools, for military bases, and for cities. We have massive government land ownership in this country (getting out of hand, frankly, and in the western states particularly.) But it has always been recognized that it is fundamental to the people and to the peoples' needs that the government monitor the use of land.

We've treated water the same way. Even more so with water; navigable streams have always been government purview. We now deal with cleanliness in water. We have federal projects by the Corps of Engineers, the Bureau of Reclamation, the Environmental Protection Agency, the Fish and Wildlife Agency. It's fundamental to the people.

There's a third area that has been just assumed -- air. We have controlled flight almost from the beginning. We are well in control, and rightly, of pollution of our air with the extremes of global warming and acid rain possibilities before us. No one really knows the dimensions of them. We have waged war in the air. We have space programs that the government monitors. In almost all areas the government has been assumed to have some clear responsibility in providing safe air for all the people.

There are two other areas that I think get extremely close to the same fundamental need of the people. The first is energy. To talk about free trade in oil is almost ludicrous because the OPEC nations alone control such huge amounts of oil.

Overall, 75 percent of the world's oil is owned and marketed by governments. Electricity is another area under government control in many countries of the world. We are faced with the realization that here we have finite energy resources like oil and gas -- even coal.

We have to ask ourselves, can this society or any society get along without a reliable energy supply? The answer, of course, is that we can't. So, government has long been obliged to be involved. It is clear now that our national energy policy needs a total review.

The fifth area of fundamental urgency to people is food. In this country, we've seen hunger, but not wholesale hunger. But, lots of nations have. The question then becomes: Are governments to simply turn this over to the whims of supply and demand? And the answer is absolutely, "No, they are not."

Producing nations have learned that it is costly for governments as well as price-depressing to carry large food reserves. Yet they must be held for the reasons given. And if reserves are going to be held, all nations should share the responsibility and farmers should be compensated for the fact that the reserves depress prices.

Governments clearly, I think, will look for as much domestic production as they can reasonably afford to support. The bottom line is that if we are going to maintain the peace and assure people of an adequate food reserve, I don't think you can euphemistically talk about free trade and supply and demand and profit and loss because it isn't going to work that way.

There must be several things done to see that the world equally and fairly carries reserves; and that as much freedom is brought to the market as possible, but within realistic parameters. For us particularly, if the United States government doesn't protect its own free enterprise system, the other governments of the world will destroy it. And so we must be careful of an easy allegiance to a "free trade" euphemism.

In the Declaration of Independence, Jefferson clearly wrote one of the finest statements of government principle in the history of the world. The key sentence is that "we hold these truths to be self-evident that all men are created equal, that they are endowed by their creator with certain inalienable rights . . . and among these rights are the rights to life, liberty and the pursuit of happiness." And then Jefferson wrote, "and to secure these rights, governments are instituted among men." That's our challenge.

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Mike Hayden *Governor*

TESTIMONY

BY

Governor Mike Hayden

before the

U.S. House of Representative's

Subcommittee on Agriculture

The Honorable E. (Kika) de la Garza

Chairman

Hearing on Considerations for the 1990 Farm Bill

June 28, 1989

Mr. Chairman, members of the Committee, I appreciate the opportunity to appear before you today to present our thoughts on elements that might be considered in the 1990 Farm Bill.

First, I want to state that from the Kansas viewpoint, the Food Security Act of 1985 has been a success both in acceptance and accomplishment. It has substantially contributed to stabilizing the farm economy and made U.S. agricultural products more competitive in the world market. Provisions in that Act have successfully retarded further soil erosion and degradation, enhanced environmental quality and the conservation of wetlands and rangelands.

In June, 1988, I appointed a Governor's Agricultural Policy Group to investigate and discuss what Kansans believe should be considered for the 1990 Farm Bill. The group met numerous times and heard from individuals ranging from state farm organization leaders to rural development experts. Several prevailing themes emerged that are reflected in our recommendations.

I believe that Congress should build on the successes of that earlier act and adopt a market-oriented 1990 Farm Bill modeled after the Food Security Act of 1985 with some revisions and additions I would like to suggest.

First, we would suggest substituting a Total Farm Base (TFB) Program for the wheat, feed grains, rice and cotton programs to allow greater flexibility:

* The Total Farm Base (TFB) program would involve the aggregate number of acres of all program crops produced on a given farm. Then, rather than reducing acreage of a specific crop, a farmer could qualify for federal benefits by placing a portion of the total farm base into a conservation use and be free to plant whatever mix of crops is chosen by the farmer on the remaining acreage. Therefore, the farmer would produce according to net farm income, consumer needs and environmental concerns rather than governmental demands;

* U.S. Department of Agriculture should allow the planting of industrial non-food crops (i.e. crambe, rapeseed, kenaf, etc.) on set-aside acres so producers can test these crops without being penalized under current farm programs. These new industrial crops, if established, can create new opportunities for farmers and rural businesses and reduce our dependence on foreign imports.

Secondly, we would propose promoting and broadening the conservation programs to:

* Establish an environmental conservation acreage reserve program. This program would expand the existing conservation reserve program to permit areas inhabited by endangered species or environmentally sensitive areas to be eligible for the benefits offered by the Conservation Reserve Program;
* Include wetlands, riparian areas and lands that influence water quality in the eligible acreage for the conservation reserve program and the environmental conservation acreage reserve program;
* Provide additional incentives as needed to establish long-term conservation practices such as the establishment of and inclusion of existing trees and windbreaks, and establishing native vegetation on and restoration of wetlands, riparian habitats and other lands vital to water quality on conservation reserve program acres;
* Provide cost-sharing for pilot projects in the establishment of artificial wetlands for the control and cleansing of runoff waters from feedlots, livestock operations and packing plants;
* Research alternative policy incentives to encourage the reduced use of energy, water and agri-chemicals in agricultural productions in order to improve net farm income and protect the environment.

Thirdly, we would encourage enhancement of competitiveness through the Export Enhancement Program and through agricultural research and extension programs by:

- Continuing the availability and use of the export enhancement program for use as an export trade policy tool;
- Providing support for research on agriculture production systems which may reduce the use of energy, water and agri-chemcials;
- Providing funding to agricultural research and extension systems to meet the constant economical and technical changes in agriculture and rural America.

Finally, we would urge placing of additional emphasis on rural development through assistance programs directed toward the enhancement and creation of jobs in rural areas. This can be accomplished through programs of education, infrastructure investment and economic development projects.

Realizing the budget constraints the federal government is facing, we would suggest that these recommendations be implemented at a cost of no more than the funds expended for the Food Security Act of 1985. If additional funding is needed for a new or existing program, those funds should be diverted from other existing programs that are of lower priority and necessity.

I am sure that I can speak for all Governors when I say we stand ready to work actively with the President and Congress to develop an effective and workable 1990 Farm Bill. A close working partnership between the federal and state levels will be absolutely essential if we are to meet the agricultural needs of the next decade. Again, thank you for the opportunity to share my thoughts on this most important legislation.

TESTIMONY OF REPRESENTATIVE DOUG BEREUTER OF NEBRASKA

Mr. Chairman, members of the Agriculture Committee, it is my pleasure to appear before you today in this first official hearing of the 101st Congress on the 1990 Farm Bill. I will focus my remarks on ideas to improve the next Farm Bill. Many of these ideas were obtained through a series of listening sessions with farmers throughout my Congressional District.

Since 1981, I have held these advisory committee meetings in all parts of my District every two years in order to give farmers and agri-business interests a chance to advise me on how the farm program is working.

The following is offered to the committee as a brief overview of a few of the major recommendations or findings of the meetings this year.

While most producers felt that the 1985 Farm Bill was working as intended and should be used as a basis for the next farm bill, they did not think that it should be used as a prototype.

While producers generally agreed that it would make sense to wait an extra year for completion of the General Agreement on Tariffs and Trade (GATT) negotiations before having a major rewrite of the multi-year farm legislation, great concern was expressed that the U.S. cannot wait too long nor can we base our agricultural policy entirely upon the end results of the GATT.

Other issues of intense interest included the Federal Crop Insurance program and the Conservation Compliance provisions under the 1985 Farm Bill.

Producers generally felt that the present conservation provisions should be given additional time before new requirements are added, and that more Federal funds for conservation measures were required to meet the current conservation program.

Many producers are still hoping that the law is changed or that they can afford to farm without participating in the program next year when compliance requirements go into effect.

A majority of producers voiced the view that the cross-compliance provisions, which require that tenants (but not landowners) comply with conservation requirements on each farm or lose benefits for all farms, are both unfair and unreasonable. *This situation must be a high priority for change or many tenants will either be forced to discontinue renting some farms or forgo participation in the farm program.*

Most farmers felt that the current crop insurance program is simply too costly for many producers, especially those beginning farmers who have not yet established a yield record.

Those who did not carry insurance felt that the incentives needed to be improved, actual yields be accepted and the multi-farm cross compliance penalties be eliminated or the program should be discontinued.

I share the producers concerns with the current crop insurance program. The current House drought legislation should assure that those producers who do not carry Federal Crop Insurance should not be treated as generously as those who do participate. That would contribute further to a precedent we've already partially established through last year's relief bill. It will also discourage the higher levels of participation in the crop insurance program that it is our current national policy to encourage. I urge Congress to take a very careful look at the recommendations that are to be made shortly by the Federal Crop Insurance Advisory Board, and pay particularly close attention to any recommendation for encouraging wide-spread participation to avoid the use of ineffective and drastic measures often contained in stop-gap agricultural disaster legislation.

These are just a few of the many issues and concerns raised by the participants during the meetings. I would now like to touch on a few other issues I hope the Committee will give serious consideration to during the continuing Farm Bill debate.

First, the Office of Technology Assessment's (OTA) report on enhancing the quality of U.S. grain for domestic and export markets is a significant study which Congress can continue to build upon. While not everyone agrees with all the conclusions in the report, there has perhaps never been a more indepth study done on the entire grain marketing system and the importance of maintaining grain quality at every step of the marketing chain. It also brings to light significant advantages of an improved premium and discount concept. This new schedule for premium and discounts based on grain quality factors was introduced by myself and Mr. Slattery last year and included by this committee in the U.S. Grain Standards Act Amendments of 1988.

While the pilot project calls for modest increases in the premiums for the delivery of quality grain, I feel there is still too much emphasis on discounts. I would like to see more emphasis placed on other quality factors such as protein, moisture and dockage in this premium and discount schedule. Nevertheless, this is an important and positive initiative which should become a permanent element of the next Farm Bill. I would also sugget that Congress annually review the premium and discount schedule for purposes of strengthening grain quality incentives.

I will also be looking at a number of other legislative initiatives for improving the reputation of our grain. One suggestion that comes to mind is to improve the rotation of grain in the reserve. By providing effective incentives to farmers, an annual rotation could be developed for the cleaning and delivery of older grain to the CCC in order to make additional storage available on the farm for newer crops to be held in the reserve. This type of rotation would inevitably help maintain a more uniform grain standard by eliminating the blending of older, out of condition grain with the newer and better quality grain entering the market pipeline.

I would also like to see the USDA be more aggressive keeping grain in poor condition from entering the domestic or export market as food or feed stock. It is my understanding that the USDA currently has the authority to issue certificates or weekly bids to small ethanol producers for the removal of poor quality grain from CCC stocks. We all know that there is plenty out-of-condition grain in commercial and farm storage that could be diverted to ethanol production. In light of the inevitable consideration of the Clean Air Act Amendments, and the renewed emphasis on alternative fuels, agriculture should be poised to take advantage of a major market-share of ethanol by utilizing such a bid process. This program could increase uniform quality of grain, supply a reliable market for poor condition grain, and increase commodity prices on both domestic and export fronts. I will continue to examine the legislative support for such a program.

I would also like to make a few comments on some of the conservation provisions contained in the 1985 bill and how some Conservation Reserve Program (CRP) acres might be extended beyond the 10-year contracts through economic incentives.

If Congress is serious about the conservation compliance provisions, more money must be appropriated for the ACP to assist in implementing the present conservation requirements. These requirements have been included to protect the public interest in maintaining our nation's soil and water resources and are rightfully a public responsibility. While the SCS has revised the original and often rigid rules surrounding the 1990 compliance deadline, we must not become too lax in the pursuit of effective conservation, nor should we allow those farmers who will be faced with very high costs due to required structures or management changes to be driven from program participation.

Although it is too early to tell what market conditions will be like when the CRP contracts begin to expire, it is not too early to begin thinking about incentives which may be needed to keep the most erosive soils out of production. I am particularly interested in adding provisions to the CRP program which would encourage more tree planting on these lands. Programmatic changes and perhaps more incentives should be developed for tree planting in the Great Plains.

While the USDA has committed a significant increase in funding for water quality programs ($181 million), Congress can also continue to contribute in solving this critical and increasingly evident problem. I strongly urge this committee to pursue the concept of enrolling tracts of land with significant groundwater contamination into the CRP. Additionally, Congress should finally pass the National Groundwater Contamination Research Act. This legislation is needed to coordinate the various agencies charged with groundwater protection and remediation to better respond to these new and serious challenges.

Thank you again, Mr. Chairman, for allowing me this opportunity to appear before the committee. I will continue to monitor the progress of the Farm Bill debate with the interest of Nebraska producers in mind.

[Attachment follows:]

SUMMARY

1989 AGRICULTURAL ADVISORY COMMITTEE MEETINGS

held in the First Congressional District on
March 17-20, 1989
at the invitation of

REPRESENTATIVE DOUG BEREUTER

The following is a summary of the comments and ideas discussed at the six Agricultural Advisory Committee meetings which I held in the First Congressional District of Nebraska during March 1989. These meetings have been held in at least every odd numbered year since 1981 to give farmers and agri-business interests a chance to advise me on how the farm program is working, as well as on how other Federal programs are affecting Nebraska agriculture. With the results of these meetings I have in the past prepared and delivered testimony before the Agriculture Committee and initiated suggestions for administrative and statutory changes to the Secretary of Agriculture and other appropriate Federal officials.

Meetings were held this year at: Seward and North Bend on March 17, 1989, Wayne and Pierce on March 18, 1989, and DeWitt and Tecumseh on March 20, 1989. A series of questions were given to each participant at the beginning of the meetings to help stimulate the discussion. For convenience the results of the meetings are organized around those questions. Participants were divided into three or four small discussion groups at each meeting. After a discussion period of about 60-90 minutes, the views or conclusions of each group were reported to the full group and to my staff and me. Reaction to such group presentations were also recorded.

THE FINDINGS

I. AGRICULTURE PROGRAM CHANGES BEING DISCUSSED FOR POSSIBLE ADOPTION IN 1989. The Congressional Budget Office (CBO) has listed eleven options for cutting agricultural spending. What do you think about each of these ideas? What alternatives should be considered?

These questions were discussed only at the Seward and North Bend meetings in any detail because of time considerations as well as the fact that a fairly strong consensus emerged that none of these ideas for cutting agricultural program costs were very palatable. The Seward group indicated that they would prefer to see the sequestration process mandated under the Gramm-Rudman-Hollings Act go into effect rather than make specific cuts to agricultural programs as outlined in the suggestions put forward by the CBO because "agriculture should not have to bear a greater role than other sectors" in meeting the budget deficit problem.

1. Accelerated reduction in target prices (perhaps by an additional 2-3% for 1990 to about $2.67 for corn).

The majority of farmers felt that the current built-in rate of target price reduction appears to be enough. In turn, an accelerated target price reduction would have a negative psychological effect on the producer. Additionally, a need for continued stability and consistency is needed in the program in order to retain participation. It was mentioned that the National Corn Growers are suggesting that a $2.75 floor be put under target prices. Most producers cautioned that projected production cost increases, coupled with further reductions in government subsidies, could be devastating to the still somewhat fragile agricultural recovery.

2. Charging producers an "insurance premium" for target price protection, such as 5% of the target price.

Most producers felt that this is just another gimmick to reduce target prices, and it would be better to just reduce target prices outright. Ideas such as this only complicate the system and foster continued mistrust by producers. A somewhat similar suggestion emerged at the DeWitt meeting. The view was expressed that an insurance premium, or checkoff of deficiency payment be placed into a fund that would be used for making disaster payments. This new program would replace the Federal Crop Insurance Program.

3. Restricting eligibility for program payments by either counting more payments against the limit or paying only for part of permitted acres.

Most producers expressed the view that they "can live with the present payment limitations and that to reduce them further might force large producers out of the program and thereby defeat the production limitation goals of the program. Additionally, paying for only part of permitted program base acres could cause confusion with respect to the program.

4. Requiring additional dairy producer contributions to cut the cost of the dairy support program.

The dairy producers present at the meetings felt that they are sharing in the program reductions at the present time and should not be singled out for added cuts. A new grass-roots proposal for a two-tier price structure was said to be under development by dairy producers, and most of the limited number of dairy farmers present seemed to support that approach.

5. Reducing the lending authority of the Farmers Home Administration.

There was some support for this idea, particularly for the possibility of switching from direct loans to guaranteed loans and for de-emphasizing non-farm loan programs. Returning to the Agency's original purpose of being a lender of last resort, particularly for beginning farmers, seemed to have popular support at the meetings.

6. Elimination or reduction of the Export Enhancement Program.

Producers generally expressed support for retaining this program and felt that it was primarily needed to strengthen the hands of our GATT negotiators in pressuring the European Community and other competitors to reduce their export subsidies. Some concern was expressed that the program had been primarily used for wheat sales.

7. Elimination of the Targeted Assistance Program (TEA).

General support for this program was indicated.

8. Complete decoupling by replacing deficiency payments with declining, fixed income support payments.

There was mixed reaction to this idea. The word decoupling has acquired a bad connotation among many producers and implies a welfare program. Some aspects of the new proposals to provide flexibility are liked, such as the zero-92 option and the recently enacted flexible base for beans program. Producers understandably would like more flexibility in making planting decisions to avoid being, in effect, required to grow surplus crops in order to retain their base acres. Concern that total production won't fall in response to lower prices puts more pressure on individual producers to grow more. Some producers felt that decoupling production from payments might result in more pressure being exerted by urban members of Congress to reduce farm program payments in the future.

9. Increasing acreage reduction programs.

Producers were generally opposed. However, one suggestion was to tie increased acreage reduction to a flexible target price. Another producer suggested that irrigated set-aside be required for irrigated acres planted.

10. Charging "points" on regular CCC loans - called 2% "origination fees."

Farmers felt that loan fees, if considered, should only be used to meet administrative costs. Loans are already a nearly self-supporting program with all of the current fees. Charging points would just be another method for reducing deficiency payments. Additional comments called for the USDA to do a better job in educating urban members of Congress that yearly reductions in farm program costs reduce appropriations outlays and do not impact the CCC.

11. Reducing the Federal crop insurance subsidy.

Some producers favored eliminating the Federal Crop Insurance Program altogether. However, most seemed to feel that the subsidy was necessary to make the program work at all because the premiums are already viewed as being too high for the protection provided.

II. NEW FARM BILL - 1990 (OR LATER)

1. Should action on the new Farm Bill await completion of the present round of GATT negotiations so that these agreements could be incorporated into the new farm legislation?

The general agreement among producers was that it would make sense to wait an extra year for completion of the GATT negotiations before having a major rewrite of the multi-year farm legislation. However, concern was expressed that the U.S. cannot wait too long; nor can we base our agricultural policy entirely upon the GATT negotiations. The main reason for waiting is to strengthen our negotiators' hand at the bargaining table. The hearing process should proceed with perhaps some minor legislative changes in the near future. It was generally agreed that there is a need to introduce additional planting flexibility into the current and future farm programs.

2. Does the 1985 Farm Bill provide a good basis for the next farm bill?

Generally, producers felt that the 1985 Food Security Act should be used as a basis for the next farm bill, but not as a prototype. There is a concern that if Nebraska suffers a drought this year, Congress will not be as generous as it was last year. There is also a need to address cross-compliance issues and to provide more flexibility so that rotations can be used, especially for those required to meet conservation plans. Also, insect infestations such as the chinch bug problem in Southeast Nebraska, will require additional planting flexibility for best-management decisions. Some producers suggested that Congress may want to consider changing the crop base system and return to the Normal Crop Acreage (NCA) program. Producers generally liked the soybean option in 1989.

There was also general concern expressed about the increasing amount of paperwork requirements farmers have to deal with at the ASCS offices to meet overall program guidelines. Additionally, attempts are being made to reduce program payments at the same time ASCS staff is increasing and new buildings are being constructed to house USDA office staff. Some producers expressed concerns that new ASCS buildings on outskirts of towns are not setting the proper example for revitalizing downtown areas in rural communities.

3. Should the Farmer Owned Reserve (FOR) be continued in the next farm bill? Should the levels be greater, less or about the same as now?

Most producers felt strongly that the Farmer Owned Reserve should be retained, and it should primarily be a farm storage program. At the very least farm stored grain should receive as high a storage payment as commercially stored grain. Generally, it was felt that present reserves are sufficient and could be slightly reduced. The drought was cited as one rationale for keeping the reserve, thus helping to stabilize price fluctuations and avoiding high feed costs that could have faced livestock producers.

One suggestion was that each farm be allowed to store one-half of the average annual crop in a reserve with a yearly rotation or sale of the older grain in order to maintain quality. Producers should not have a "right" to expect extension of reserve, but they should be encouraged rather than penalized for the substitution of new grain for old grain. Others felt that the FOR offers a good opportunity for producers to control a larger share of surplus commodities and allows for a long-term marketing strategy.

Other farmers felt that the government should utilize on-farm storage at the present storage rate of 26.5 cents to a greater extent, rather than shift storage to commercial facilities with resultant increased costs. This, it was suggested, would achieve real reductions in program outlays for FY 1990.

4. How are the conservation provisions of the present farm bill working? (Conservation Reserve Program, Conservation Compliance, Sodbuster, and Swampbuster.)

Many farmers felt that the present conservation provisions should be given additional time before new requirements are added. Others felt that farmers need to recognize and face responsibility for soil and water conservation on their own.

Although producers generally supported the CRP, there was a concern that it may be having a negative financial impact on local economies. One producer pointed out that for every 500 acres enrolled in the CRP, one family is lost to the local area. Some commented on the need for more supervision of weed control on CRP acres.

Given the dry weather conditions in Nebraska, some farmers saw a potential for wildfires on CRP lands. Comments on wildfire prevention included allowing forages to be harvested (perhaps as a source of emergency hay aid), border cultivation, mowing fire strips, controlled burning, and the further development of fire plans. Additionally, differences between definitions of highly erodible land for conservation compliance purposes and for CRP eligibility was cited as a problem.

Most producers agreed that the need for more monies to fund conservation measures was a significant problem with the conservation compliance program. Many producers are hoping that the law will be changed or that they can afford to farm without participating in the program next year when compliance requirements go into effect. Some producers will face little or no cost to meet compliance requirements while others could face very prohibitive costs. Some producers pointed to the very severe compliance problems they are facing simply because they harvest corn silage to feed their cattle.

A majority of producers strenuously voiced the view that cross-compliance provisions, which require that tenants (but not landowners) comply with conservation requirements on each farm or lose benefits for all farms, are both unfair and unreasonable. Many tenants will either lose the opportunity to continue renting some of their farms or will have to forego participation in the farm program. Producers felt that this situation is a high priority for change!

It was generally agreed that alternative systems were necessary as major conservation structures are too costly for many producers. However, the present compliance program increases the need for more chemicals to implement no-till and reduced till systems (often in direct conflict with the objective of improving water quality). Since there is no system for appeal of SCS decisions on a conservation plan to a neutral party, the view was expressed by several of the participants that the local ASCS Committees should be involved in such appeals. Farmers in Northeast Nebraska had additional concerns regarding conservation compliance implications such as the negative economic impact which they expect to suffer as a result of reduced soybean plantings that are likely to be required by the crop rotations needed to satisfy these provisions. Changes in crop base and other rules are needed so that rotations required by conservation compliance can realistically be implemented.

Farmers agreed that while the Universal Soil Loss Equation is useful, it is not infallible. It must be used as a guide, not as a rule.

Producers felt that the swampbuster provisions need major re-evaluation. It was pointed out that the SCS is making determinations from out-dated aerial maps and that "knobs" which were cut for irrigation leveling are showing up on aerial photos as wetlands. However, some producers felt that the SCS was responsive in working-out these problems. Other producers felt that the USDA needs to re-examine wetland definitions, and believe that they go far beyond what Congress originally intended. Problems cited included: too much variation in program interpretations between counties and states, definition of wetlands as those having hydrophytic plants is too broad, and penalties are much too severe (i.e. banned from all Federal programs for a single violation).

Farmers felt that sodbuster is generally working, with the major exception being the provisions relating to alfalfa in rotation. It was pointed out that a different plan may be required for sodbusting alfalfa than just the normal conservation compliance plan. There is a continued need to allow alfalfa in rotation to be treated as a crop.

Many producers expressed concern that certain counties have been penalized by having unrealistically low program yields. A majority of producers favored a USDA study to compare average county yields for feed grains and wheat, with the average county program yields for these crops in order to determine a more accurate county average.

5. Should the Conservation Reserve Program be extended beyond the original ten-year period? If so, in what way?

Most farmers felt that it may be too early to determine whether the CRP should be extended. However, it was generally agreed that the decision needs to be made by the seventh or eighth year of the contract so that plans can be made. Concern was also expressed that much of this land would go back into row crop production. Some felt that incentives (such as a lesser annual payment) or disincentives could be devised to retain these lands in grass, trees, alfalfa or small grains. Others felt that too much grass would be an artificial stimulus to the cow-calf business.

It was suggested that land classifications could be used as a guide to future retention of some lands. In some cases certain lands have been entered into a soil bank program three different times. There was also support for added incentives for tree planting on CRP lands because they would be much less likely to return to row crop production at end of the ten-year period.

6. What changes could be made in the Federal Crop Insurance Program to make it more attractive to and useful for Nebraska farmers?

While a number of producers believed that Federal Crop Insurance provides protection for complete crop loss, many others viewed the program as too costly for many producers, especially those beginning farmers who have not yet established a yield record. About one-fourth of the producers indicated that they carried the insurance. Most of those carrying crop insurance supported its continuation and had used it mainly as a hedge against a complete crop loss. It appeared particularly useful for those with a cash lease to cover cash expenses.

Many of those who did not carry all-risk crop insurance felt that the incentives needed to be improved, or the program should be discontinued. Some commented that last year's use of the disaster payments undercut the crop insurance program. However, it should be noted that many doubted that this would be repeated in 1989 if just the High Plains were in a drought.

One suggestion was that the insurance subsidy program should be replaced by a combined disaster/insurance program which would assess a fee, or checkoff, from the deficiency payment that would be deposited into a national fund to be used for disaster assistance when needed. Another suggestion was to insure income instead of yield.

7. Should present crop specific acreage bases be continued or a new approach considered, such as the Normal Crop Acres (NCA) used during the late 1970's?

Again, producers suggested that it would be useful to allow alfalfa to be counted as an annual production crop. While there was considerable support for the NCA approach, some producers who used rotations while NCA was being utilized found themselves penalized when we went to the present base system. Other approaches included the diversion of a percentage of crop acres for a payment, and to allow the farmer to plant what he wants on the rest of crop acres. Also, ASCS should only allow set-aside for irrigated farms to be irrigated acres, or the payment could be based upon the type of land idled. Other farmers stated that they are now making planting decisions based too much upon program requirements and not on the market signals.

One new suggestion was to make farm payments only on those acres planted to clover not for harvest. Each farmer could be paid for planting up to a certain percent of their crop land to clover each year. No other planting restrictions would be made. In this way it was pointed out that conservation goals would be enhanced by a voluntary program which furthered the goals of soil conservation as well as reduced chemical use.

8. Should marketing loans be offered to wheat, feedgrain, and soybean producers?

It was a general feeling that marketing loans are an effective trade tool, if workable. However, it was noted that they have been very expensive in the cotton program. Most producers felt that the marketing loan provision of the Trade Bill was a proper market clearing tool for trade negotiations. Some felt that there should be more control through the use of PIK certificates regardless of the need for additional paperwork by using PIK's.

9. Should additional incentives be offered to encourage low input agriculture methods such as the use of less agricultural chemicals, water conservation, and crop rotations?

There was much disagreement on this topic. Some producers felt that no incentives should be offered and that farmers would adopt the practice if they felt that it would be feasible for their operation. Other producers felt that consumers would supply the demand for "natural" crops and provide the incentive for certain farmers to fill this niche. Others felt that incentives would be appropriate since they might help allay any food safety concerns. There was some talk that "low input" agriculture would likely be more labor intensive and could bring people back into rural areas. Some see the present farm programs as a disincentive for the use of a "low input" approach, making the plan unworkable. An example would include conflicts between conservation compliance rules that encourage no-till and the high chemical usage needed for weed control. Again, there were comments supporting incentives for planting legumes on set-aside acres, as well as the need to recognize that legumes planted for hay as an annually produced crop should not cause a loss in base acres.

III. OTHER AGRICULTURE RELATED ISSUES

1. How fairly has the 1986 Tax Reform Act treated agricultural producers, considering changes in: investment tax credit, capital gains tax, income averaging, pre-productive expenses, cash accounting rules and other changes?

The income averaging provisions were favored by everyone. Reinstating the capital gains tax at a lower rate was the next most popular idea, especially for value increases due to inflation. Some pointed out the tax difficulties in transferring the farm from one generation to the next. Other farmers said that the investment tax credits may have had adverse effects on agriculture by encouraging over-investment in farming, especially by non-farmers.

Some producers said, quite naturally, that the tax changes certainly were not simplifications and Congress should stop changing the rules every year.

2. How seriously do you believe the concerns about meat safety due to the effects of chemical residues and hormones are? What actions, if any, should Congress consider?

Most producers felt that imported meats should meet the more strict U.S. standards, and that the European attitude towards the use of hormones in beef is nothing more than a non-tariff barrier. While producers feel that consumer concerns in this country are serious, it is part of the general concern about food safety. Some felt that farmers and the USDA must take the lead in educating the public concerning the quality of U.S. products. The National Cattlemen Association's effort was mentioned as an example of a successful program for educating the public about the healthy benefits of a proper diet of beef. Additionally, it was suggested that there is the need for more cooperation from the Food Safety Inspection Service (FSIS) and producers in food safety, labeling, and other health initiatives.

Other producers indicated that cheap food is not the same as high quality food -- i.e., if quality is desired, then it will cost the consumer more. Some stated that there may be a need to reduce the amount of chemicals used in agricultural production in order to reduce consumer anxiety in the supermarket. Other producers pointed out that the European Community should be more concerned about the difficulty that they are having in the detection and prevention of illegal hormones being used by as many as one-third of European producers.

3. Should Congress become concerned about concentration in the meat packing industry and the practice of contractual arrangements between packers and large feedlots?

A number of opinions were expressed that there is too much concentration in the packing industry. No real consensus was reached on what action should be taken. Feeders were particularly concerned over the movement of the packers into the feeding business which could drive smaller feeders into extinction. Some producers believe that the anti-trust laws have not been enforced over the last few years. The overall lax enforcement by the Federal government could have allowed the packing industry to be so bold in the concentration movement. The most important need may be to find a better price discovery mechanism. Some felt that the Federal government may need to require more extensive reporting of beef sale prices.

4. What should be the main purposes of the Farmers Home Administration with regard to: farm operating loans, farm ownership loans, business and industry loans, community facility loans, rural housing loans, emergency/disaster loans?

With respect to FmHA lending practices, several producers expressed the need for a shift to, or more emphasis on, the guaranteed loan program as opposed to direct loans. Additionally, most felt that FmHA should only be a lender of last resort, or primarily targeted for beginning farmers "as was the original intent of Congress." Borrowers should be graduated in a reasonable amount of time. Moreover, the view was offered by several persons that FmHA should discontinue its rural housing program and concentrate on the agricultural sector.

Some producers indicated that the wasteful lending practices in the 1970's are directly related to the current rash of FmHA problems. These included loans to recreation facilities, disaster loans, economic emergency loans, and loans to farmers at ridiculously low interest rates "for national election purposes." Some other producers thought that FmHA should make only disaster loans. Still others said the present system penalizes those who have made the effort to make payments and rewarded those who have been delinquent. The majority also stated that there is too much red tape in the overall FmHA programs.

5. How well are the commodity checkoff programs working? Are any changes needed?

While there was little discussion on this subject, most felt that the checkoff programs are working for the benefit of the agricultural producer. The National Beef Board was cited as a good example of a national promotional and educational direction. Others commented that there is need for better monitoring of checkoff funds with elected, rather than appointed, representation. Some producers felt that the checkoffs need to be mandatory and non-refundable in order to be effective.

6. How well are the futures markets for grains and livestock working? Is additional legislation needed to make the Commodity Futures Trading Commission more effective?

There was strong concern expressed by several participants over the current operation of the grain and livestock futures. More Congressional oversight as well as better internal policing of the futures market, such as the Securities Exchange Commission (SEC), was suggested by a number of persons. Other points of concern included the need to switch to computerized trading, and to move away from the inter-relationship between regulators and financial interests.

Many producers found the futures market to be a valuable tool in the marketing of their commodities. However, there was also general agreement that more education is needed to induce additional producer participation. Others expressed an interest in participating in the "Futures pilot program" that was included under the 1985 Farm Bill. However, it was noted that the USDA must do a better job at implementing this program after the low participation last year.

Some producers felt that the USDA's current system of determining projected numbers of cattle on feed are out-dated and should be revised so as to not depress market prices.

7. How concerned are you about possible foreign investments in various phases of U.S. agriculture and agri-business?

Although some participants expressed concern about foreign investments in agriculture, there was a recognition that "the U.S. needs to retain foreign investments." References were made to Japanese ventures in grain elevators and the purchase of a ranch in Nebraska by a number of producers. Some producers felt that we have little to complain about since the U.S. holds vast investments overseas. Others stated that foreign investment in agriculture should be viewed as a positive development in spurring American farmers to react to additional competition by capturing expanding markets. One suggestion advocated rules for reciprocal land ownership rights in other nations, depending on how they regulate U.S. citizens with regard to land ownership in that nation.

8. Would you support a grain quality incentive program that would pay premiums for high quality grain, and impose penalties for poor quality grain?

There seems to be substantial support for this proposal. However, producers felt that incentives need to reach back to producers. Additionally, improved grain standards should be developed and enforced in order to maintain the quality of the grain from the farm to the export destination. Some producers felt that the current grading system, as well as the present Farm Bill, encourage adulteration of grain. A few farmers thought that cleaner grain may not improve the price much, but that it would improve the U.S. reputation and eventually increase overseas sales by helping to better meet specific buyer needs.

Producers felt that the USDA could develop rules to improve the rotation of grain in reserve in order to store newer crops, and then move older grain into the pipeline sooner. Some producers cited examples of grain currently entering the market from the reserve which is 8 to 10 years old; that grain would likely be blended with better quality grain. Other comments supported added incentives to allow ethanol producers to utilize damaged grain in order to keep it out of the export system. Others said incentives need to be developed to economically reward desirable traits in grain, i.e., high oil content, protein levels, etc.

9. Should the use of agricultural chemicals be more strictly controlled either through greater restrictions or use of economic disincentives such as taxes or refundable deposits on pesticide containers?

There was mixed reaction and much discussion regarding the future use of agricultural chemicals. While it was noted that stricter controls are currently being contemplated in Congress, others stressed the need to exercise self-regulation and best-management practices in chemical application. Most felt that this was the best approach to the situation. It was also suggested by some that most farmers do not over-apply in these days of increased production costs. Nonetheless, some producers expressed strong concern over the prospect of increased government regulation in the application of agricultural chemicals.

Support was expressed for a voluntary movement to utilize more bulk and returnable containers for better control and handling of containers and leftover chemical disposal. Others advocated refundable deposits on pesticide containers. While some farmers noted that taxes on chemicals would be an economic disincentive, they felt the government needs to take the lead in educational programs before such drastic measures are utilized. Interest was expressed by many producers in the USDA 10-year program for increased research and development in soil and water quality.

Finally there was discussion on the generally unexplained problems of highly concentrated use of chemicals and pesticides in urban areas; agriculture cannot be singled-out as causing all the problems. Also, more and better coordination between state and Federal agencies was suggested as a high priority that must be attained in order to avoid mandatory enforcement.

STATEMENT OF CONGRESSMAN DAVID R. OBEY
FOR SUBMISSION TO THE COMMITTEE ON AGRICULTURE
WEDNESDAY JUNE 28, 1989

Dear Mr. Chairman and Members of the Committee:

I appreciate the opportunity to add my comments to the debate on the 1990 Farm Bill and I use the opportunity to address the dairy program. I wish to bring to your attention the views of Wisconsin dairy farmers and to ask you to take these views into account as you prepare to develop legislation reauthorizing our nation's farm programs.

I should state at the outset that I opposed the 1985 Farm Bill because it was unfair to Wisconsin's dairy farmers. I will continue to oppose any new program that does not provide more equity for family dairy farmers in the upper-Midwest, and I will do everything I can to ensure that no new farm program is enacted that is detrimental to the interests of Wisconsin's dairy families.

WHAT DO WISCONSIN'S DAIRY FARMERS WANT FROM THE 1990 FARM BILL ?

Let me start out by asking the question: what are Wisconsin dairy farmers hoping to get from the 1990 Farm Bill.?

Very simply, they are hoping for higher prices for the milk they produce, and they are looking for some stability in the dairy industry that will allow them to plan for the future without the constant threat of dairy support price cuts -- which they can do nothing about -- hanging over their heads.

But perhaps a better way of answering the question is to first ask what it is that Wisconsin dairy farmers do not want from the new farm bill.

WHAT WISCONSIN'S FARMERS DON'T WANT -- THE 1985 FARM BILL

Very simply, the 1985 farm bill was a disaster for many, if not most, of Wisconsin's family dairy farmers.

For Wisconsin dairy farmers the 1985 Farm Bill succeeded temporarily in bringing down federal purchases of surplus dairy products -- at a cost of nearly $2 billion, much of which came through assessments on the dairymen themselves -- but it has done nothing to address the longer-term problems of oversupply.

For many Wisconsin dairy farmers the 1985 Farm Bill represented a series of dairy support price cuts while farmers in other regions of the country were receiving price increases due to changes in the dairy differentials. That has spawned deep bitterness among Wisconsin dairy farmers and it has highlighted the need to reform the federal milk marketing order system.

For Wisconsin dairy farmers, the 1985 Farm Bill has meant deep frustration with the dairy price cut trigger level of 5 billion pounds and frustration with irrational Administration policy. This was best exemplified last year when the Administration announced that it was discontinuing donations of cheese and non-fat dry milk to domestic nutrition programs because it had run out of surplus dairy products, at the same time that it was announcing that it was imposing dairy support price cuts because the dairy surplus was too high!

Very simply, Mr. Chairman, an extension of the dairy provisions of the 1985 Farm Bill is unacceptable to Wisconsin's dairy farmers.

WHAT WISCONSIN'S DAIRY FARMERS DO WANT -- EQUITY, STABILITY AND A RATIONAL PROGRAM

After the upheavals of the dairy termination program and two successive years of drought for many dairymen in northern and central Wisconsin, dairy families are looking for enough stability in the program to allow them to plan ahead.

Wisconsin's dairy farmers would like higher prices for their milk. They would like to be receiving the $13.10 per hundredweight they were receiving six years ago; they would like to be receiving the $15 and $16 per hundredweight prices that are available in some of the southern orders; they would like some equity through reform of the marketing order system.

Wisconsin's dairy farmers would like to be able to plan for the future, for a future that holds out hopes for something better, and not just more cuts forcing prices lower and lower until families are forced off their land and forced out of farming altogether. That was the Reagan Administration position on supply management -- managing the supply of farmers.

Wisconsin's dairy farmers would like more rationality brought into the system of federal purchases and donations of dairy products so that we avoid the absurd situation of the Administration announcing it doesn't have any dairy products for nutrition programs for the poor, elderly and schoolchildren and then announcing it is imposing another round of dairy support price cuts because federal dairy purchases are too high.

OBEY/KASTENMEIER LEGISLATION

Congressman Bob Kastenmeier and I have introduced three bills which respond to many of the concerns of Wisconsin's dairy farmers.

One bill would simply eliminate the Secretary of Agriculture's authority to impose the 50 cent price cut scheduled for next January 1. Dairy prices in Wisconsin are too low now and federal nutrition programs for the poor, the homeless, the elderly and schoolchildren have no cheese and other dairy products available for distribution. Under those conditions it would be immoral to impose further price cuts on midwestern farm families that have already suffered greatly. We need a reassessment of our nation's nutrition needs and federal nutrition programs and we need to tie in federal dairy purchases more closely with those needs.

A second bill would reform the milk marketing order system, eliminating the current patchwork quilt of more than 40 orders and replacing them with just one order. The General Accounting Office and USDA have both studied the orders and declared that they are outdated, that they contribute to overproduction, and that they discriminate against farmers in the upper-Midwest. In the event the Committee feels that one marketing order would represent too drastic a change, I am also a sponsor of Congressman Roth's legislation to establish a number of basing points. Regardless of how we do it, the marketing order system needs to be reformed to recognize the changed conditions of dairying in the United States in the late 20th century and to provide more equity to farmers in the upper-midwest.

The third bill we have introduced proposes a supply management or two-tier program providing for a farmer referendum on establishing a strict base program in exchange for higher dairy prices and penalties for overproduction. Dairy farmers in Wisconsin have repeatedly indicated their support for such a program. AMPI, the largest dairy cooperative in the nation has endorsed the two-tier approach; it is also supported by the National Save the Family Farmer Coalition, and just last week the National Farmers Union endorsed this legislation.

I was pleased with the comments of Chairman Stenholm of the dairy subcommittee who was recently quoted as saying that the government has a role to play in agriculture and that supply management is not a dirty word. I agree.

I am certainly willing to consider other proposals that would provide a decent price for Wisconsin dairy farmers and that can win a majority of votes in Congress and win the support of the Administration. Once again, however, let me simply say that an extension of the status quo is unacceptable for Wisconsin's dairy farmers. We need some recognition of the inequities of the current program and we need to address those inequities, or this is one member of Congress who won't support another farm bill.

Thank you.

TESTIMONY OF PETER E. HIRSCHFELD
BEFORE THE
HOUSE AGRICULTURE COMMITTEE
NEW ORLEANS, LOUISIANA
JUNE 23, 1989

Mr. Chairman and members of the Committee, it is an honor and a privilege to appear before you today in behalf of the National Cotton Council of America and the entire U.S. cotton industry. I am Peter E. Hirschfeld, a cotton exporter headquartered in Dallas, Texas. I have a personal interest in these hearings both as an international merchant and as past-president of Cotton Council International, the overseas arm of the National Cotton Council.

As you on the Committee are aware, the food and fiber system of the United States is both the nation's largest industry and it's primary employer. In 1986, agriculture generated about $704 billion or 16.6% of total U.S. GNP and provided on-farm employment for roughly 2.1 million people -- as many as the combined workforces of transportation, the steel industry, and the automobile industry.

The seven segments of the U.S. cotton growing, processing, marketing, and textile industries contribute substantially to agriculture's total productive output. In 1988, cotton's contribution to GNP was about $60 billion -- just under 9% of the total for all of agriculture. Agriculture has been one of the few sectors of our economy which has been able to consistently post surpluses in our overall balance of trade, and cotton, of course, has been a major contributor to the positive agricultural trade balance.

Because of agriculture's significant contribution to our nation's economy, American taxpayers share with farmers and agribusiness a common vested interest in the enactment of new farm legislation which ensures continuation of a vibrant, productive agricultural sector.

Traditionally, the U.S. exports about one-half of its total cotton production. Over the last five years the U.S. cotton industry has exported over 28 million bales of cotton, valued at about $9 billion. While these numbers are impressive, and help demonstrate the crucial role of exports in maintaining a viable U.S. cotton industry, it should be noted that, with the right tools, we could do better.

The U.S. currently has cotton production capacity considerably higher than the combined total of domestic mill consumption and export sales during recent years. This means, of course, that we _must_ do a better job of competing internationally or face the expensive consequences of continual land diversion.

The National Cotton Council's Economic Services division has done some excellent work on assessing U.S. cotton's export potential. A copy of that work, excerpted from the 1989 edition of _Economic Outlook for U.S. Cotton_ is appended to this testimony. I commend that work to you as an excellent commentary on U.S. cotton's need for a strong market-oriented program, encompassing both a competitive price and a well-funded market development program.

Failure to meet our full export potential results from a number of factors which these hearings will help to identify and, hopefully, lead to correction in subsequent farm legislation.

Clearly, one essential component in any formula for achieving our export potential is a consistently competitive price. The marketing loan has gone a long way toward improving U.S. cotton's price competitiveness, but some administrative changes are needed to ensure that we can price our cotton at a competitive level during the balance of current farm legislation; and, of course, provisions for competitive pricing should be a priority in 1990 farm legislation.

Competitiveness in the global context turns on both price and non-price factors which will need to be addressed in the cotton and trade titles of new farm legislation.

Many countries depend upon predatory practices to export cotton. Huge export subsidies paid by foreign governments to producers and exporters of cotton, manipulation of exchange rates to achieve unfair advantages in the market, state-owned trading companies, and reliance upon centrally planned economies -- which mask the true cost of production and marketing -- are examples of the competition faced by U.S. cotton. The effects of these last two are not only difficult to measure and sanction but currently are receiving little attention in the GATT negotiations.

Each of these practices results in foreign-growth cotton being sold at prices below market value and below true production costs. The U.S. cotton industry can document lost sales opportunities for at least 13 million bales, the equivalent of one year's production, valued at almost $4 billion over the last 10 years as a result of these practices.

Pakistan, which has become the world's third largest exporter of cotton, buys cotton from its producers at fixed prices and exports the same cotton at whatever price it takes to move it to market. It is estimated that this practice alone has cost the U.S. approximately 8.6 million bales in lost export opportunities over the last 10 years, resulting in revenue losses of some $2.7 billion. Also, while U. S. producers have reduced acreage, Pakistani mills have continued to produce cotton textile and apparel products for export, which in-turn displace U. S. products and U. S. cotton.

The People's Republic of China, with its centrally planned economy, has inflicted even greater losses on the U.S. cotton industry, using the same buy-high, sell-low practice. During the 1985 crop year, China paid its producers about 80 cents a pound for cotton which was subsequently exported for as little as 30 cents a pound. This is the kind of non-market practice that allowed China to move quickly from net importer status to one of net exporter, and in the process, displaced over 3 million bales of U.S. cotton exports valued at nearly $1 billion, between 1982 and 1987. China's hugh textile export volume has a "chilling" effect on development in southeast Asian countries which are significant markets for U. S. cotton exports.

The same potential for market disruption is present as a result of the structure of the Soviet economy. The Soviets are currently the world's second largest producer of cotton and should the government decide to emphasize exports, they have the same potential to disrupt U.S. export sales opportunities.

The current round of GATT negotiations could leave the U.S.-cotton industry at considerable risk in world markets. Major competitors, like the Soviet Union, and the P.R.C., who utilize state trading agencies in exporting cotton, are non-market based economies, and are not currently signatories of the GATT. Since it will be difficult, if not impossible to measure the extent of production and/or export subsidies in order to verify compliance with any agreement, even if these countries join the GATT they may not be impacted by the agreement.

Moreover, the current round has not adequately addressed another significant technique employed by many of our competitors -- i.e., manipulation of their exchange rates.

The opportunity to negotiate verifiable, enforceable and simultaneous reductions in agricultural subsidies will be significantly enhanced if we maintain pressure through U.S. farm legislation which maintains our competitiveness and counters unfair trade practices. The marketing loan and export enhancement program (EEP) are two tools which will underscore our intent to do just that.

Assuming this GATT round does eventually lead to a verifiable and simultaneous reduction of agricultural subsidies, the U.S. cotton industry must be prepared to make full use of our ability to be the world's most reliable supplier of cotton.

In a more open and fair market, the inherent advantages of the U.S. infrastructural can be enhanced through a serious commitment to long term market development and promotion. The U.S. cotton industry, in partnership with USDA, has already embarked on a solid foreign market development program that has demonstrated positive, substantial results.

In an effort to expand and maintain U. S. cotton export markets, the National Cotton Council, through its overseas division, Cotton Council International (CCI), has, for many years, aggressively conducted a broad-based program to increase exports. Working in cooperation with USDA's Foreign Agriculture Service, CCI has maintained a presence in each of U.S. cotton's major markets for over 30 years.

The cornerstone of our international activity is the market development cooperator program. The market development program, funded by USDA, the U.S. industry, and foreign third party participants has yielded significant tangible results over the years.

Numerous activities have been carried out on an annual basis which are designed to increase our international customers' awareness of U.S. cotton, provide information on developments with U.S. cotton, help the U.S. industry to become more aware of our customers' needs, and help to foster and nurture long term business relationships.

One of our more noteworthy market development programs is the U.S. cotton orientation tour, which for 20 years has brought middle-level managers in foreign textile mills to the U.S. for a tour of the Cotton Belt. During these tours our overseas customers are exposed to virtually every aspect of the U.S. cotton industry, from cotton production and processing, to merchandizing, to textile technology and research.

Over the years, as these middle-level managers have moved into top executive positions in their firms and into leadership position in their industries, they have taken with them a solid understanding of U.S. cotton and a good working knowledge of our industry.

While it is difficult to measure success of the program in terms of number of bales sold, the results of a recent survey of past participants offer some insights. Over two-thirds of the participants surveyed, reported that personal contacts made on the orientation tour resulted in purchases of U.S. cotton which otherwise would not have occurred. Furthermore, 88% indicated that their participation positively affected their attitudes toward U.S. cotton and 80% said they would buy more cotton from the U.S. as a result of the tour.

For the cost equivalent of about 200 bales each year, the U.S. cotton industry has, for 20 years, implanted lasting, positive impressions of U.S. cotton in the minds of current and future decision makers in the mills of our most important customers around the world.

One of the more visible trade servicing programs sponsored by CCI is the U.S. Cotton Seminar. The Seminar targets the top textile leaders in our major markets with the objective of influencing these decision makers to increase their use of U.S. cotton.

The Seminar program extends over five days with sessions focusing on a variety of topics of interest to our foreign customers. There is no other single event which provides the U.S. cotton industry with a captive audience of such stature or buying power.

The primary objective of the program is two-fold, to provide the latest information on U.S. cotton to our customers, and to do so in an environment which allows U.S. exporters to further develop business relationships with these most important customers.

The Seminar is establishing a tradition of success. At last year's Seminar, held on Cheju Island Korea, over 80 U.S. cotton exporters met with more than 100 of the leading textile executives, representing over 80% of the total spinning capacity in our major markets in Japan, Korea, and Taiwan.

In a survey of foreign participants who attended the seminar, 100 percent indicated that personal business ties were enhanced by their experiences at the Seminar and 96% indicated that they anticipated buying more U.S. cotton as a result of the Seminar. Furthermore, U.S. exporters reported selling over 100,000 bales --or over $32.5 million in U.S. cotton as a result of the Seminar.

We are currently preparing for our third U.S. Cotton Seminar, which will target the textile industries in the rapidly developing Southeast Asian region. This area represents the growth potential for U.S. cotton exports, and with the funding made available in part through USDA, U.S.

cotton is well on the way to establishing a dominant presence in the region.

Through the foresight of this committee in shaping 1985 farm legislation, CCI and many other U.S. cooperators, have been provided another tool with even greater potential for increasing exports. The Targeted Export Assistance, or TEA program, authorized $325 million to be used by agricultural organizations and exporters to promote U.S. farm products and counter unfair foreign trading practices.

Cotton has been fortunate to share in the funding for the TEA program and has put its share of the resources to good use. With the TEA funds as start-up money, CCI has embarked upon a bold new strategy to do for U.S. cotton internationally, what Cotton Incorporated has successfully done domestically -- namely to increase consumer demand for U.S. cotton at the retail level.

Following CI's strategy, CCI has created a new emblem for use in international markets which brands products containing U.S. cotton and then backs them with advertising campaigns and other promotional activities in our major markets. These campaigns are launched and funded in cooperation with producers of cotton textile products, so that additional monies are attracted to the program and overall effectiveness is boosted.

This campaign, over time, will create a demand-pull specifically for U.S. cotton. With this emblem and promotional activity, we can emphasize the quality attributes of U.S. cotton products. This will ultimately create a demand at the retail level for U.S. cotton products which provides a strong incentive for textile manufacturers to buy more U.S. cotton, thereby increasing our exports.

There is no question about whether this strategy will be successful. We have already seen this same strategy increase cotton's market share against synthetics here in the U.S. During the years 1973 to 1989, largely as a result of Cotton Incorporated's promotional program, cotton's retail market share in the United States increased an impressive 16 percentage points, from 34% to 50%.

The same thing can be done, with a potentially greater impact on cotton offtake, at the international level. Continued authorization of the TEA program by the Congress is a prerequisite, and should be a high priority in 1990 farm legislation.

A fundamental in Cotton Incorporated's success in the domestic market has been continuity of the program. This will also be true for CCI in the international arena. It is imperative that the U.S. cotton industry and the U.S. Congress be committed to long-term promotional efforts. Through continued funding of the Market Development and TEA programs, Congress can assure substantial benefits both to the cotton industry and to the general public, which is increasingly dependant on exports for a viable U.S. economy.

Another program which has led to increased exports of cotton is the GSM Credit Guarantee program. GSM has been used extensively to develop and maintain numerous foreign markets for U.S. cotton.

Most notably, GSM credit has recently aided the development of new markets in North Africa and Middle East. Only a few years ago U.S. cotton exports to Iraq were virtually non-existent. Over the last three years, the cotton industry has made a concerted effort to develop these markets with the aid of GSM-102 credit guarantees.

The results have been exceptional, with $40 million worth of raw cotton and U.S. cotton yarn being exported to Iraq in the current marketing year. Similar results have been noted in Algeria, and additional increases are expected in coming years in these countries in the years ahead.

GSM credit played an important role in the growth and maintenance of our exports to Korea, which could soon become the number one export market for U.S. cotton. GSM helped to open the door and has been the prime mover in helping U.S. cotton to develop a 70% market share in Korea.

While the Korean mills have been excellent customers for U.S. cotton and the GSM-102 credit program, the Korean Ministry of Finance is attempting to limit the usage of GSM credit by Korean mills. A reduction or elimination of GSM credit use by Korean mills could have a devastating impact on our level of exports to Korea.

To illustrate the potential impact, it is instructive to compare U.S. market shares in Korea and in Japan. In 1987-88 Korea imported a total of 1,960,000 bales of cotton total and the U.S. supplied 74%, or about 1,450,000 bales. In this same year Japan imported 3,431,000 bales and the U.S. market share was 46%, or about 1,569,000 bales.

If we assume that the primary difference between U.S. market share in these two countries is due to the GSM credit allocated to Korea, and if we further assume that Korea discontinues its use of GSM credit, the U.S. industry could be confronted with a market share loss in Korea to about 45%. This would translate into a loss of over 500,000 bales of cotton, worth more than $170 million annually.

These few examples provide hard evidence of just how vital the GSM program is to maintaining and increasing exports of U.S. cotton. Simply stated, the GSM program is a sound, fiscally responsible mechanism to encourage the export of U.S. cotton. It is crucial that Congress continue its support for GSM credit authorization, as well as encouragement of its use by our customers overseas.

There are numerous other programs which the U.S. cotton industry is using to expand exports and achieve its export potential, such as the PL-480 program. When used for cotton, it provides an important industrial raw material which can be used for economic development and to create employment opportunities in the world's poorest countries.

PL-480 can also be used to provide an important high quality, edible oil - cottonseed oil.

It is the policy of the U.S. cotton industry to continue to encourage the use of PL-480, where appropriate, with the long-term objective of assisting these "poorest of the poor" to develop sound production and consumption infrastructures and economies. Ultimately, and with continued support from international economic assistance, these countries can share the economic abundance available in the world economy and become viable markets for U.S. cotton.

In summary, the U.S. cotton industry has been, and remains, a major player in the positive trade balance for U.S. agricultural products. Still, we have unused capacity for production and exports which needs to be utilized, and can be more fully utilized with a well balanced program assuring competitive pricing and strong market development capability.

Efforts to achieve our full potential in world markets have been hampered by unfair practices of our major competitors. As world commerce slowly moves toward a less subsidized, more market-oriented approach, it will be important for U.S. cotton to have established a solid market base on which to build.

The U.S. cotton industry has established a strong tradition of success in working with USDA and the Congress to make use of opportunities provided by the Market Development and TEA programs, GSM credit, PL-480, and other programs. I urge you to keep these tools available in new farm legislation.

Again, thank you for the opportunity to share an exporter's perspective on international cotton trade and the implications for new farm legislation.

TESTIMONY OF DAN P. LOGAN
BEFORE THE
HOUSE AGRICULTURE COMMITTEE
NEW ORLEANS, LA
JUNE 23, 1989

Good afternoon, Mr. Chairman and members of the Committee. My name is Dan Logan. I am a cotton producer from Gilliam, Louisiana. I appear before you today in behalf of the National Cotton Council which is the central organization of the American cotton industry -- representing producers, ginners, seed crushers, warehousemen, merchants, cooperatives and manufacturers. I am a member of the Council's Foreign Operations Committee which has responsibility for trading issues.

I want to thank you, Mr. Chairman, and members of the Committee for holding these hearings on the important Trade Title of Farm Legislation. You are to be commended for your foresight in fashioning the Food Security Act of 1985 with its strong market orientation. The marketing loan, together with the foreign market development tools included in the Trade Title, give U.S. cotton a much better opportunity to be aggressive competitors in global trade than was possible under previous law.

Mr. Chairman, U.S. agriculture needs a farm program that fosters full production. We don't need programs that allow the U.S. cotton industry to be forced into the role of supply adjuster for the world.

Those needs translate into legislation that provides for a consistently competitive price, the ability to offset unfair trading practices by others, the ability to assist some of our foreign customers through special credit arrangements, and the ability to expand markets abroad through promotion and trade servicing activities.

Certainly full production is important to cotton farmers. Idling expensive land and incurring conservation expense on the idled acres are costly. And, of course, volume is absolutely vital to the cotton industry's processing and handling infrastructure. As a ginner I can tell you that big acreage reduction programs can be absolutely devastating.

You gave us some important pricing and marketing tools in the Food Security Act of 1985. Unfortunately, some administrative problems developed with our marketing loan at the very time we were harvesting two very large back-to-back crops. The result was a build-up in stocks and rising program costs. We believe changes that Secretary Yeutter has proposed to make will correct the administrative problems with the marketing loan, and we are confident that it is a fundamentally sound provision to be made a part of 1990 farm legislation.

It will be extremely important, however, for 1990 farm legislation to include a strong, aggressive Trade Title.

Continuity is nowhere more important than in market development activities.

Cotton farmers in the United States understand very well the value of market development. We were among the first agricultural commodities to fund our own research and promotion program through a check-off system. Through the National Cotton Council we have given leadership to the formation and support of the International Institute for Cotton. And we have been outspoken advocates for a strong government involvement in research and market development.

PL 480, GSM Credit, the Export Enhancement Program (EEP), the Targeted Export Assistance (TEA) Program and other market development provisions of current law have been important components in U.S. cotton's total marketing program.

You will hear more specifics about how these programs have paid dividends to the American cotton industry from Mr. Esteve, but I would like to share with the Committee at least a couple of general observations that seem relevant as Congress looks ahead to new farm legislation.

With respect to the Targeted Export Assistance program, the return on taxpayer investment is boosted because of the additional market development monies attracted by the TEA funds. In cotton's TEA program, for example, U.S. government funds account for about two-thirds of the total investment in this market development program. The balance is made up of private investment from the cotton industry and matching funds from foreign cooperators.

So, the government's contribution to this important program attracts additional monies, allowing the total investment to be considerably larger and more effective.

One thing that has been especially satisfying to me has been the response of our industry to this program. Aside from increased funding and staffing devoted to this program by the National Cotton Council, other cotton industry organizations have joined in to help fund the program. Cotton Incorporated, the American Cotton Shippers, AMCOT (the national organization of marketing cooperatives), the Supima Association and The Cotton Foundation have all made substantial contributions to help the cotton industry qualify for additional TEA dollars and, of course, to help enlarge the total market development program for U.S. cotton. The Cotton Incorporated contribution to this program alone amounts to $1 million annually.

Development of foreign markets for vegetable oils is another important marketing effort made possible by provisions of the current Trade Title. As you know, cotton farmers receive the majority of their income from the fiber component of their production, but the seed constitute a significant part of producers' income and sustains the entire crushing segment of the American cotton industry.

Accordingly, the Export Enhancement Program is another important marketing tool for the U.S. cotton industry because it provides an effective means of combating subsidized foreign competition in export markets for vegetable oils. The foreign customers for cottonseed oil are somewhat restricted, however, and the countries targeted by USDA under the current program are not traditional importers of this product. As a result, only three percent of the oil exported under EEP so far has been cottonseed oil. Looking ahead to 1990 farm legislation, we urge the Committee to insure that countries with a history of importing cottonseed oil be included in the list of countries targeted by USDA as eligible for EEP bonuses.

We also support the continuation and expansion of funding for the Sunflower, Cottonseed Oil Assistance Program (SCOAP). Although it is a relatively new program, we believe SCOAP will better serve the needs of U.S. cotton producers and crushers due to the restricted export outlets mentioned above, and because the economics, marketing patterns and foreign competition for cottonseed oil are quite different from those influencing the other major vegetable oils.

Of course, continuation of and adequate funding for the PL 480 program would also be helpful in expanding exports of vegetable oils. In summary, American agriculture needs a balanced marketing program which permits competitive pricing and assertive marketing. We strongly urge you to enact legislation in 1990 that will permit American agriculture to mount an aggressive campaign on both fronts.

Mr. Chairman, thank you again for scheduling these hearings and for the opportunity to present our observations on trade aspects of new farm legislation.

NAEGA
North American Export Grain
Association Incorporated

Testimony of
Steve McCoy, President
NORTH AMERICAN EXPORT GRAIN ASSOCIATION
before the
COMMITTEE ON AGRICULTURE, U.S. HOUSE OF REPRESENTATIVES
June 23, 1989
New Orleans, Louisiana

It is a great privilege to appear before you today as a representative of the U.S. export grain community in this the first hearing of the Committee on matters pertaining to the 1990 Farm Bill.

The subject of today's hearing is U.S. agricultural exports. It is important that the matter receives the Committee's priority attention.

No single issue will have as great an impact on the future of U.S. agriculture -- and the success of the 1990 legislation -- as U.S. agricultural export performance. It has been so for U.S. agriculture since the early 1970's. It remains so today. 1990 legislation which fails to recognize this reality -- and to effectively mobilize U.S. government resources and programs in support of expanded exports -- will necessarily fall short of the objectives which you, the Committee, may set for the future of U.S. agriculture, however those objectives may be drawn.

THE PRIMACY OF EXPORTS

The link between U.S. agricultural exports and the health of the Nation's farm economy -- indeed, of the national economy itself -- is well documented and well known. I will not dwell on the matter at length.

Detailed documentary evidence of the link was provided in the 1987 report of the National Commission on Agricultural Trade and Export Policy, a Presidential panel which labored under your leadership, Mr. Chairman, and under the leadership of Mr. Madigan and the former Senator from Louisiana, Senator Long; and which I was honored to serve as Associate Director.

Many of the Commission's recommendations have been enacted into law in the 1985 Farm Act and 1987 Omnibus Trade Act. Others remain to be considered.

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It would be well for the Committee to consider utilizing the Commission's report as a starting point for its deliberations on the export provisions of the 1990 bill. I would, of course, be happy to assist that process from the former staff perspective. Some of the Commission's recommendations may have been overtaken by events; and others may appear less than merited in the current context. However, as a body of findings, the report may have some utility to the Committee.

Alternatively, Mr. Chairman, you might consider convening a meeting of the former Commission members to elicit their cross-sectoral views of the export policy needed in the 1990 Act; and to further explore the Commission's 1987 recommendations.

LEADERSHIP NEEDED

Leadership was an important theme of the Commissions's report. It remains, in our view, the most important theme relating to the matters under consideration by the Committee today. Leadership is needed to knit together the various aspects of today's farm and trade policies into a coherent, connected and consistent whole.

The 1985 Act came close to achieving that objective. However, even that seminal legislation has been unable to stem the tide of policy conflict and inconsistency which relates to the effect of various commodity provisions of current law.

Today's problems of rigidity of commodity programs; of unevenness of program benefits as between, say, corn and soybeans; of lack of market-orientation affecting producer decisions; of inadequate production of commodities in demand in the market and surplus production of commodities not in demand; of starkly different domestic and trade strategies affecting different commodities: all these problems pose a serious and continuing threat to the maintenance of U.S. trade competitiveness; a consistent environment promoting overseas market development; and the future performance of U.S. exports in the markets of the world.

We recognize that policy consistency is always a difficult undertaking, particularly when one bears in mind the comprehensive nature of multi-year farm legislation. We further recognize the important contribution of the 1985 Act in the direction of a consistent, pro-export policy.

We commend the Committee for its attention to problems of current policy -- particularly program rigidity -- and its obvious intent to address such issues in the 1990 bill. That is good news. It demonstrates the Committee's appreciation of its leadership role in crafting consistent policy. That leadership will be necessary if we are to avoid sinking into a policy morass dictated by the differing objectives of specific commodity interests.

A common policy and common objective is needed now more than ever in U.S. agriculture: a bundle of inconsistent, conflicted commodity provisions -- whether contained under a single statute or not -- is not a substitute for a consistent, unified policy approach.

A commodity lobbyist, noting the influence of his commodity's program on the production of another commodity, recently commented, in effect, "that's their problem, not ours". Leadership is needed, Mr. Chairman, to put such thinking aside.

The unintended, adverse impact of current commodity programs -- of one commodity's program on the competitiveness of another -- is not a problem for a single group or interest: it is everyone's problem. Leadership is needed to see that this theme is reflected in the 1990 bill. That will not be an easy task. However, agriculture stands assured that at your hand fair and reasonable treatment of commodity interests can result in overall benefit for U.S. agriculture as a whole.

DOMESTIC POLICIES SET THE PARAMETERS OF EXPORT GROWTH

We dwell at some length in this testimony on domestic policy ramifications of the 1990 legislation for a purpose that bears directly and unavoidably on the specific matters under consideration by the Committee today. Domestic policies set the framework for and parameters of future U.S. export growth.

This is, of course, a matter which the Committee knows only too well. It was your recognition of this important relationship which led to a restoration of U.S. competitiveness through the medium of commodity provisions of the 1985 Act.

The direction of domestic policy contained in the 1985 Act must be maintained if U.S. agriculture is to prosper in the competitive environment it is likely to face in the future. The 1985 Act put U.S. agriculture on a path to greater market-orientation and competitiveness. That trend should be allowed to continue -- and that path widened and made more permanent -- in service of farmers, consumers and others directly and indirectly affected by the performance of the U.S. food and farm system.

Loan rates should be maintained at below market clearing levels; and efforts to increase loan rates strongly opposed. Acreage adjustment strategies should be reconsidered in light of current supply conditions and with full appreciation given to the need to maintain maximum U.S. farm production as the best possible -- and most effective -- response to unfair foreign competition.

Reserve policies should be made more flexible. Release levels for the Farmer Owned Reserve (FOR) should be eliminated and farmers given opportunity to market reserve grain at their option.

Finally, farmers should have greater freedom to make their own planting decisions and to rely on market signals to enhance their competitive position in meeting world and domestic demand. Farm programs should be restructured to break the link between program costs and production.

Government benefits to farmers should be limited to direct assistance unrelated to current or future farm production. This step could be accomplished by ending the link between deficiency payments and current production; and by the substitution in lieu thereof of a direct payment based on historic planting patterns. Farmers should have the assurance that they will receive a known, predictable payment regardless of what they plant or whether they plant at all. That is fair and right, and if accomplished in the manner we have suggested, is in the best interests of all engaged in U.S. agriculture.

A CONSISTENT CLIMATE PROMOTING REAL WORLD ECONOMIC GROWTH

The steps recommended above will go some way towards assuring the continuation of a competitive U.S. agriculture. However, competitiveness can only be guaranteed in the long run through adherence to more general policy promoting real world demand growth.

The 1990 legislation must provide a consistent basis for long-term market development. Foreign customers of U.S. agricultural products need to be assured that the United States will produce in response to market needs. U.S. agricultural policy must be devised in light of the need to preserve the reliability of the United States as a dependable supplier to domestic and world markets. Foreign policy inroads into U.S. agricultural policy which run counter to this principle must be eliminated.

Government policies that have effectively created an environment of managed demand and supply should be ended. Congress should recognize that government can -- and often does -- act as an anti-competitive element in the domestic and world agricultural marketplace. Government involvement in agriculture and trade should be kept to a minimum. In the alternative, U.S. farm and trade policies should be designed to achieve maximum "market orientation".

International trade barriers and unfair competitive practices should be reduced or, preferably, eliminated. U.S. export subsidies, if maintained, should be limited in scope and targeted to offset unfair subsidies applied to exports of other countries.

Due care should be taken to ensure that U.S. subsidies enhance rather than interfere in normal marketing practices.

U.S. market development and food aid programs should be reconsidered in light of the new realities of international agricultural trade. Agricultural trade promotion activities of the U.S. government -- and similar activities by overseas market development organizations -- should be strongly supported and maintained. Steps should be taken to ensure that such activities and programs represent the interests of all affected groups engaged in the export of U.S. agricultural commodities and products. Greater emphasis should be placed by government on mining the talent and expertise of the for-profit private sector in support of such activities.

SPECIFIC RECOMMENDATIONS

Regarding specific components of the export title of the 1990 bill, we currently recommend provisions as follows.

Agricultural Trade Policy

The 1990 legislation should clearly affirm Congress' support for the Administration's position seeking reduction in, or elimination of, unfair trade practices in the GATT negotiating process. The stated policy of the United States should be to disavow use of trade- and production-distorting subsidies and practices prejudicial to expanded world trade. Worldwide export subsidies and import barriers should be reduced or eliminated.

Current U.S. export subsidies should be, by legislation, limited in scope only to counter unfair export practices of other countries. The 1990 bill should clarify that current export subsidies of the United States are temporary, and for strategic use to achieve trade policy objectives. Otherwise, the legislation should specifically rule out reliance on export subsidies as a governing principle of U.S. farm and trade policy.

Inter-Agency Considerations

Existing provisions of law relating to agricultural export embargoes and contract sanctity should be restated and, where necessary, strengthened to ensure clear-cut U.S. policy disavowing use of agricultural export embargoes except in extraordinary cases involving actual military conflict. The Committee should take under advisement embargo legislation offered in 1988 by Congressmen Anthony and Bereuter as a model for provisions needed in the 1990 bill.

Principal leadership in agricultural trade policy matters should be reserved for the U.S. Department of Agriculture (USDA), strengthening USDA's hand in the inter-agency process in competition with other agencies. Identification of USDA agricultural trade policy leadership was incompletely addressed in the 1988 Omnibus Trade Act. The 1990 farm bill can improve on provisions of current law. The 1990 legislation should contain explicit language limiting foreign policy inroads into the establishment and execution of U.S. agricultural trade policy. Consideration should also be given to the development of "agricultural trade impact statments" as a means of policing the impact of non-agricultural factors on actual U.S. agricultural export performance.

The role and responsibilities of the Special Assistant to the President for Agricultural Trade and Food Aid should be reconsidered in the context of the 1990 legislation. Consideration should be given to combining the Special Assistant's role with the Agricultural Trade and Development Missions (ATDM) program authorized by the 1988 Trade Act, as a means to make both activities more effective.

Export Enhancement Program

Pending changes in the export enhancement program (EEP) arising from the current inter-agency review, legislation should be considered to add greater stability and transparency to the EEP program.

The program currently operates in a manner prejudicial to U.S. farmers and grain exporters. Specific changes recommended by NAEGA include provisions requiring that the program allow:

(1) negotiation directly between buyer and seller, eliminating the government role in determining price, shipment period, coast of shipment, class and grade of grain, and other conditions of sale;

(2) contracting for any class or classes of grain for shipment from any coast or coasts;

(3) switching of classes and grades of grain and coasts of shipment at any time prior to shipment by agreement of contract parties;

(4) a single bonus to apply to all classes of wheat (other than durum) with an "additive bonus" if necessary to counter particularly aggressive foreign subsidization;

(5) public announcement of a list of EEP eligible countries or an annual "EEP marketing plan" designed to add transparency to the program; and

(6) elimination of certain "nuisance" and anti-competitive provisions of current regulations.

More detailed information regarding these matters is contained in the pages attached to this testimony. NAEGA welcomes your review and comments regarding the recommendations made.

Export Credits and Credit Guarantees

Export credit programs of the USDA should be supported and funded at the maximum level possible, consistent with the need for such programs in an increasingly competitive international environment.

Consideration should be given to management improvements in credit programs to eliminate "red tape" and provide for their expanded use. Changes in the GSM Short Term and Intermediate Credit Programs are required to make the programs more attractive to exporters and foreign customers alike.

Market Development Programs

Review of the Targeted Export Assistance (TEA) program would be merited in advance of the 1990 legislation to ensure that the program is cost-effectively serving priority U.S. market development objectives. Provisions are needed in the 1990 bill to provide a basis for greater direct for-profit private sector participation in market development activities directly and indirectly supported by the U.S. government.

U.S. direct and indirect funding of foreign market development activities and projects should be provided only upon condition that the activities and projects supported are beneficial to all affected segments of the farm and export community. Activities or projects which run counter to the goal of promoting the best possible image of the U.S. agricultural industry should not be supported directly or indirectly by the U.S. government.

Current market development programs of the Foreign Agricultural Service (FAS) should be re-examined to determine their consistency with the future needs of U.S. agriculture. Market development objectives should be more clearly defined, perhaps as part of the Annual Long Term Trade Strategy reports required by the 1988 Trade Act.

Food Aid and Foreign Assistance

P.L. 480 Title I/III programs should be reconfigured consistent with the recommendations of the Ad Hoc Private Sector Committee on Agricultural Trade and Foreign Assistance, of which NAEGA is part. In general, food aid programs should be required to serve more direct U.S. agricultural market development purposes.

Committee development of the food aid provisions of the 1990 bill should take greater account of farmer and for-profit private sector agricultural interests in such programs. I take this opportunity to volunteer to the Committee copies of the Ad Hoc Committee report, as a first step toward your more complete consideration of these issues.

Cargo Preference

Cargo preference provisions of the 1985 Act are recommended for repeal. Such provisions have evidently failed to serve their intended purpose in assisting the transition of the U.S. bulk maritime fleet towards greater cost efficiency.

The cargo preference provisions of the 1985 Act remain a serious exaction on U.S. agriculture, despite the brave face put on them by some within the agricultural community. Assistance to the maritime industry -- if deemed necessary by Congress -- should be provided in some other manner than by reservation of cargoes in violation of accepted principles of competitiveness and marketing efficiency.

FAS Management and Organization

The 1990 legislation should reaffirm and support policy strengthening the Foreign Agricultural Service (FAS) contained in the 1988 Trade Act.

The 1988 Act called for increased staffing and funding authorization for the agency; and for the establishment of new FAS offices and reporting requirements. Oversight of these provisions should be undertaken to ensure that the requirements of the 1988 law have been appropriately executed by USDA. The Committee should also explore the status of the private sector Committee required to be established by the 1988 Act for purposes of reviewing the organization of current international programs and activities of the USDA.

Consideration should be given to a provision of the 1990 bill requiring FAS to hire personnel from among individuals possessing a broader range of background and education than that currently true for the agency as a whole. FAS could benefit by new personnel more directly experienced in business and trade. Leadership positions within the agency should not, as a matter of course, be reserved for foreign service officers only.

CONCLUDING COMMENTS

The recommendations contained above are necessarily provisional and general, given the early stage of debate of issues pertaining to the 1990 legislation. We hope to work with you to narrow their scope and purpose so that they may be suitable to be included in the bill before the Committee next year.

Obviously, other matters will emerge which may also bear on the important work to be conducted by the Committee in 1990. In addition to strictly trade or agricultural concerns, matters which affect U.S. export performance include U.S. economic policy, the budget deficit, LDC debt, and the overall worldwide economic climate. These matters, in turn -- and their relationship to agriculture and agricultural trade -- deserve the constant attention of the Committee, though not, perhaps, as part of today's hearing.

Over-compartmentalization of export from commodity provisions of the 1990 legislation should be assiduously avoided. The commodity and export titles of the 1990 bill are, in reality, two sides of the same coin. They should not be conceived as separate from or unrelated to each other.

We have attempted in this testimony to note the important link which exists between U.S. domestic farm programs and trade. We have also noted the linkage of U.S. agricultural trade policy with other considerations, such as foreign policy, multilateral trade policy and maritime policy. Keeping consistency between all these various aspects of U.S. agricultural production and trade is the greatest single challenge that lies before this Committee. The need for consistency is made all the more real by the backdrop of negotiation of a new multilateral trading agreement.

More than in any previous time in recent history, the opportunity exists next year to fashion a single, integrated, coherent farm and trade policy for the United States that may serve U.S. agriculture into the next century. Ground breaking work in the direction of a market-oriented, competitive U.S. agriculture was signalled by the 1985 Farm Act. Building on the strengths of that bill -- and improving it where necessary -- this Committee can have a dramatic impact on the domestic and international environment in which U.S. agriculture must operate.

We have suggested our preferred route for achieving U.S. agricultural competitiveness. We now look to your suggestions and actions. The U.S. export grain community stands ready to assist you in any way we can to make your burden next year less onerous. We thank you for this opportunity to testify and look forward to future dialogue in support of a strong, profitable and market-oriented U.S. agriculture.

The North American Export Grain Association (NAEGA) is a not-for-profit organization representing the interests of U.S. grain and oilseeds exporting companies and cooperatives.

(Attachment follows:)

NAEGA
North American Export Grain
Association Incorporated

THE EXPORT ENHANCEMENT PROGRAM (EEP): A PROPOSAL FOR CHANGE

Recommendations of the North American Export Grain Association

May 1989

Introduction

In testimony presented before the House Subcommittee on Wheat, Soybeans, and Feed Grains on April 27, 1989 (see attached), the North American Export Grain Association (NAEGA) has recommended "redesign" of the current export enhancement program (EEP) to "lessen the adverse impact of government in the grain marketing process".

The EEP currently "acts as a deterrent rather than as a stimulant to export sales", the testimony states: "foreign grain customers look to the U.S. government rather than to the marketplace to make basic decisions regarding purchases". The testimony notes that "a greater element of stability, consistency and predictability is necessary in the EEP program, if it is not place an unreasonable burden on grain markets". It also notes that "greater transparency in the decision-making process would result in improvement in the program".

The following information is provided as additional to the views expressed in NAEGA's April 27 testimony. The North American Export Grain Association (NAEGA) represents the interests of U.S. grain and oilseeds exporting companies and cooperatives.

The Current System

Currently, USDA -- either internally, or, more often in negotiation directly with a foreign buyer (usually a government) -- determines the terms of sale of commodities sold under the export enhancement program (EEP) down to specifics including shipment period; coast of shipment; class and grade of grain; and, in many cases, price. Once these initial determinations are made, the buyer invites exporters to bid for the business.

USDA calculates the bonus it believes is needed to buy-down the price of the commodity to the price offered by the EC for the commodity in the market in question. An exporter or exporters offering to sell within the bonus range may be granted a bonus and thereby the business.

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However, the process is not automatic. Prices and acceptable bonus levels vary from day to day; and from period to period. USDA, by exercising total discretion with respect to such sales, may reject or accept on any given day business offered at terms better or worse than those offered on the previous day or day following.

There is an absence of consistency and predictability in the program.

The Current Problems

The negotiation of contract terms and the setting of bonus levels by USDA takes away from the exporter the ability to rearrange domestic positions to benefit from the most efficient and advantageous terms; and prevents competitively placed producers from participating in the sale to the extent that they would under free market conditions.

By tightly limiting the shipment, the present system prevents the buyer from making any substantial forward purchases. EEP initiatives are offered piecemeal. A buyer who may be disposed to buying substantial quantities of grains in predictable conditions is precluded from that option because he cannot predict when the next initiative will take place. The lack of consistency and predictability in the program creates frustration for both buyer and exporter, results in charges of buyer "discrimination" and, in the long term, will tend to drive our best volume customers to more predictable origins.

Indeed, this may already have happened. Producer, buyer and exporter all fail to benefit from the program as Congress intended. Significant sales and, hence, purchases from producers go unmade.

A Partial Solution

There is no perfect "market-oriented" solution to problems of this nature created by a targeted export subsidy program which, by its very nature, impedes the normal function of markets. Nevertheless, certain improvements in the current system could be made which would restore to a greater extent the operation of the free market to the benefit of the program and affected parties, including exporters and producers.

NAEGA has reviewed some possible solutions. Among these, we recommend the following:

(1) **NEGOTIATIONS SHOULD BE DONE DIRECTLY BETWEEN BUYER AND SELLER, ELIMINATING THE GOVERNMENT ROLE IN DETERMINING PRICE, SHIPMENT PERIOD, COAST OF SHIPMENT, CLASS, AND GRADE OF GRAIN, AND OTHER CONDITIONS OF SALE.**

(2) THESE NEGOTIATIONS SHOULD PERMIT THE CONTRACTING FOR: (a) ANY CLASS OR CLASSES OF GRAIN; AND (b) SHIPMENT FROM ANY COAST OR COASTS.

(3) CLASSES AND GRADES OF GRAIN AND COASTS OF SHIPMENT SHOULD, AS IN THE FREE MARKET, BE SWITCHABLE AT ANY TIME PRIOR TO SHIPMENT BY PRIOR AGREEMENT OF BUYER AND SELLER.

(4) THE SAME BONUS SHOULD APPLY TO ALL CLASSES OF WHEAT (OTHER THAN DURUM) FROM SHIPMENT FROM ALL COASTS.

IF NECESSARY, AN "ADDITIVE BONUS", SUCH AS THAT THE EC NOW EMPLOYS, COULD ALSO BE GRANTED AND, IF GRANTED, PUBLICALLY ANNOUNCED, TO COUNTER PARTICULARLY AGGRESSIVE SUBSIDIES APPLIED TO EXPORTS OF OTHER ORIGINS OF A GIVEN COUNTRY.

(5) TRANSPARENCY AND STABILITY SHOULD BE ADDED TO THE MARKET.

For example, USDA could, not later than the beginning of each crop year, announce an "EEP marketing plan" specifying eligible countries and quantities of commodities available for such countries under the program.

If, under this type of scheme, the quantities specified for any individual country had not been contracted for within six months of the announcement of the plan, the quantities specified in the plan could, by public announcement, be reduced. When, on the other hand, quantities in the plan had been fully contracted, the quantities first announced in the plan could again by public announcement be increased.

Alternatively, USDA could limit its annual announcement to a list of eligible EEP recipient countries. Such a step, while not preferable to the suggestion above, would provide improved transparency while also preserving USDA's flexibility to use EEP strategically for purposes of countering foreign unfair trade practices.

(6) THE BONUS SHOULD BE ANNOUNCED ON A DAILY BASIS AND THE SAME BONUS LEVEL SHOULD APPLY TO ALL ELIGIBLE COUNTRIES.

A weekly subsidy, such as used by the EC, might also be an acceptable alternative.

(7) UPON ACCEPTING A CERTAIN QUANTITY OF AN ANNOUNCED BONUS, THE EXPORTER SHALL DECLARE THE DESTINATION.

Unwarranted "nuisance" provisions of current regulations should be eliminated or reasonably amended. For example, qualification requirements currently deny participation to an exporter -- however financially sound and scrupulous its performance with government contracts may be -- simply on the basis that it has not, in the past, exported the commodity to be exported under a particular EEP initiative.

We have no interest in making eligible to participate in this program companies that are not properly eligible; nor have we an interest in loosening appropriate management safeguards. However, these requirements, as they apply to exporters currently participating in the program, appear to us to be anti-competitive and improperly exclusive.

Performance security requirements of EEP are needlessly burdensome. Once the financial capacity of an exporting company is established and, provided the company has a record of good performance on government contracts, the bonding requirements called for under current regulations should be waived for that company.

Likewise, regulations attending entry certification should be eased. In some cases it is difficult, if not impossible, to obtain evidence of entry in the form the regulations currently require. The regulations should allow in the alternative any competent and credible evidence such as certification by the vessel owner, any entity of the buyer's government in its country or in the United States, or a stevedoring firm, etc.. The purpose of the program is not to gather entry certificates of limited format -- it is to export grain.

Current program regulations should be amended to state that, in the event that a vessel sinks or a part of the cargo is lost, the bonus should not be forfeited.

Finally, exporters should not be penalized for failure to meet contract minimum when such failure is attributable solely to the presence of dockage. In accordance with international practice and freighting arrangements, the quantity stipulations of sales contracts provide that quantities are gross; i.e., including any dockage. CCC regulations should correspond.

The management proposals above have been submitted with particular reference to wheat. However, NAEGA notes that these proposals should be applicable to all commodities exported under the export enhancement program.

EPIC

Export Processing Industry Coalition

Sponsoring Members
Industrial Union Department, AFL-CIO
Corn Refiners Association, Inc.
Millers' National Federation
National Soybean Processors Association

Participating International Unions
Allied Industrial Workers of America International Union
American Federation of Grain Millers
Bakery, Confectionery & Tobacco Workers' International Union
International Molders & Allied Workers Union
International Union of Operating Engineers
U.S. International Woodworkers of America
Oil, Chemical & Atomic Workers International Union
United Brotherhood of Carpenters & Joiners of America
International Brotherhood of Boilermakers, Iron Ship Builders, Blacksmiths, Forgers and Helpers
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TESTIMONY BY
JOHN G. REED, JR.
VICE PRESIDENT, INTERNATIONAL
ARCHER DANIELS MIDLAND CO.
for the
EXPORT PROCESSING INDUSTRY COALITION
to the
HOUSE COMMITTEE ON AGRICULTURE, JUNE 23, 1989

Mr. Chairman and Members of the House Committee on Agriculture:

The Export Processing Industry Coalition (EPIC) appreciates this opportunity to appear before you as the Committee commences work on the 1990 farm bill.

EPIC is a combination of organizations involved in the processing and export of value-added agricultural products. Our membership includes the major trade associations representing processors in the flour milling, corn refining, and soybean processing industries. Our group also represents ten international labor unions whose members work in these processing industries, and the Industrial Union Department of the AFL-CIO. Our objective is to represent the common interests which exist among farm and rural communities, organized labor and agricultural processing organizations in increasing exports of processed U.S. agricultural products.

Agricultural exports, the subject of this hearing, are vital for the welfare of American farmers and for the U.S. economy as a whole. Value-added agricultural exports are especially necessary because they benefit not only the producer, but also American workers and businesses in the processing chain. Rural development is encouraged, government revenues are enhanced, and the value of U.S. agricultural exports increases dramatically.

Our coalition is reflective of the large segment of the economy employed in value-adding activities. While only about one percent of the U.S. population is farmers, nearly one quarter of the American work force is engaged in the growing, processing, transportation and marketing of farm products. Agriculture-related activities provide over 20 million jobs in our country. Exports are a vital component of this economic activity.

The importance of value-added exports to our nation can be easily demonstrated statistically. To use two examples provided by USDA economists:

(1) When $1.0 million worth of raw soybeans are processed in the United States, and the processed soybean oil and meal are exported, the aggregate economic benefit to the U.S. economy is $2.8 million. In addition, 183 new U.S. jobs are created.

(2) Although more than two-thirds of world agricultural trade is in high-value products, less than one-half of U.S. agricultural

exports are in the high-value category. Thus, the average value of agricultural goods in world trade is $429 per metric ton, but U.S. agricultural exports have an average value of only $223 per metric ton. This compares very poorly with our EC competitors, who emphasize processed products and receive an average value of $637 per ton.

We believe it is time for the United States to raise its sights on value-added agricultural exports. This can be accomplished in at least three different ways:

(1) First, in the GATT negotiations now underway, we cannot allow our competitors to maintain discrimination against our processed products while subsidizing the export of their own processed products.

(2) Second, in the 1990 farm bill, we will need stronger emphasis on increasing our sales of processed products abroad.

Increasing emphasis on value-added exports will have no negative effect on whole grain sales. Indeed processed product exports benefit raw commodity usage quite directly: an export of 100 pounds of flour uses 138 pounds of wheat; 11 pounds of soybean oil sold abroad uses 60 pounds of soybeans; 14.5 pounds of corn gluten feed exported uses 56 pounds of corn.

(3) Third, we need domestic farm policies which allow our food and fiber processing manufacturers to be competitive. Current farm programs are too restrictive, and prohibit our farm sector from

responding to a growing world demand for our products.

A great opportunity -- and challenge -- lies in the growth potential for processed product markets around the world. Value-added goods already comprise the majority of international agricultural sales and are projected to increase at a faster rate than the unprocessed commodity markets.

We need to boost America's share of value-added farm goods in the world market. The U.S. share has been running at about 10% of the global total. If we maintain this share, at projected rates of world trade increase, U.S. value-added exports would climb from the current $16 billion range to $29-39 billion by the year 2000.

However, EPIC believes our goal should be much more ambitious. The USDA's Economic Research Service has measured the enormous gains which could be achieved by raising the U.S. share by only five percentage points. An ERS study concluded that the U.S. share of the global value-added market could be raised to 15% over this period without loss in bulk exports. It estimated the increase to 15% would add $50 billion to the U.S. GNP, generate an additional one million jobs, and add $2 billion to federal tax revenues.

In order to increase its world market share, U.S. agricultural policy must pursue a coherent strategy, emphasizing value-added exports, providing flexible, market-oriented domestic farm programs, and effectively countering our competitors' unfair trade practices. For example, the EC, which recognizes the importance of processed product sales for its economy and trade balance, used export subsidies to increase its share of the world high value agricultural market from 21% to 30% between the 1960s and 1980s, while the U.S. share remained static at about 10%.

The U.S. has several export programs which may be used to counter unfair trade practices and enhance exports of both raw and value-added agricultural products. In evaluating the use of these programs, it is vitally important to measure accurately the net effect on the federal treasury. This can be done using economic multipliers developed by USDA's Economic Research Service.

For example, the U.S. may wish to export 10,000 metric tons of wheat under the Export Enhancement Program (EEP). Under recent market conditions, an EEP bonus of $100,000 would probably be required. However, 10,000 metric tons of additional wheat exports would generate $313,000 of additional federal tax revenue. Thus, the effect on the federal treasury would be a net gain of $213,000.

However, if instead of exporting 10,000 metric tons of wheat, the U.S. were to use EEP to export the 7,200 metric tons of flour that can be produced from 10,000 metric tons of wheat, it would probably require an EEP bonus of $461,000. (The per ton EEP bonus required for flour is much larger than the per ton EEP bonus required for wheat because of large EC export subsidies for flour.) However, 7,200 metric tons of additional flour exports would generate an additional $1,269,000 in federal tax revenue. The effect on the federal treasure of using EEP to export flour is a net gain of $808,000.

Thus, the net contribution to the federal treasury of using EEP to export 7,200 metric tons of flour instead of 10,000 MT of wheat is $595,000 ($808,000 net gain from exporting flour, less $213,000 net gain from exporting wheat). Unfortunately, the U.S. government's present budget system does not recognize the additional government revenues which result from the economic activity generated by value-added agricultural exports.

The ERS currently is updating a 1981 statistical study describing what it terms the "sizeable economic and employment advantages" to the U.S. from export of processed products. ERS has indicated it will complete the update this summer. The results should be helpful to the Committee's work on the 1990 farm bill.

In summary, value-added exports are good for American farmers, for labor, rural development, business, the government and for the nation generally. A growing world market is out there for us if we go after it vigorously. We need to put greater emphasis on processed products in our export programs, and embrace in our legislation strong export strategy for value-added agriculture.

We appreciate the support which the Chairman and Members of this Committee have given to value-added exports in the past. We look forward to working with you in the coming months to help assure adequate emphasis in this area in the 1990 farm bill.

TESTIMONY
TO
THE U.S. HOUSE OF REPRESENTATIVES
COMMITTEE ON AGRICULTURE
FIELD HEARING FOCUSED ON EXPORT TRADE IN THE 1990 FARM BILL

NEW ORLEANS, LOUISIANA
JUNE 23, 1989

PRESENTED BY: DONALD ZAUNBRECHER, CHAIRMAN
LOUISIANA FARM BUREAU FEDERATION
SOYBEAN ADVISORY COMMITTEE

Mr. Chairman and members of the committee, my name is Donald Zaunbrecher. I serve as Chairman of the Louisiana Farm Bureau Federation (LFBF) Soybean Advisory Committee. I am a farmer from New Roads, Louisiana, where I produce mainly soybeans, corn, and wheat. Thank you for the opportunity to present to the committee the views of the Louisiana Farm Bureau Federation concerning export trade proposals to be considered for incorporation in the 1990 Farm Bill.

We recognize the importance of agricultural exports to the major agronomic crops produced in Louisiana. Approximately 80 percent of the wheat, 64% of the rice, and 70% of the soybeans produced in Louisiana during 1986 were exported. Also, the majority of U. S. agricultural exports pass through the port of

New Orleans. As you are able to realize, exports are of major importance to Louisiana. It is the opinion of LFBF that the 1985 Food Security Act has generally accomplished its three major objectives: stabilizing the financially stressed farm economy, enhancing the export position for U. S. farm products, and preventing the buildup of surplus stocks. It is also the concensus of LFBF that the direction of the 1990 Farm Bill should be similar to the present act in market orientation so that farmers will be allowed to take maximum advantage of market opportunities at home and abroad.

Any lessening of involvement by the U. S. government must occur only when proper changes are made in the degree of government intervention in other countries that compete with the United States. LFBF supports the United States' position in the Uruguay Round of supporting worldwide trade liberalization through the reductions in import barriers and subsidization of agricultural commodities as a worthy goal. However, we feel Congress should not wait for the progress under the ongoing multilateral trade talks before writing a new four to five year farm bill. The 1990 Farm Bill should not be based on what we hope will happen in the GATT talks. We have to assume a continuation of what we have now in world trade and go on that basis. For these reasons, LFBF believes the trade title of the 1985 Food Security Act should be continued and added upon. We recommend an aggressive agricultural market development program be carried out, including but not limited to sales missions, revolving credit, interest buydowns, innovative barter programs, expanded P. L. 480 programs, export bonus programs, use of Export-Import Bank financing and funding for market development programs.

Even though the marketing loan provision is not in the trade title, it is recognized as having a substantial impact on the U. S. exports of cotton and rice. Mechanisms, such as the marketing loan, which allow U. S. commodities and products to be competitively priced in the world market, must be included in the 1990 Farm Bill. LFBF supports extending the marketing loan concept to other commodities. We believe that the flexible loan rates will enable U. S. commodities to be price competitive in all markets.

The P. L. 480 program and associated food assistance programs continue to play an important role in the promotion of U. S. agricultural exports. We urge expanded use of P. L. 480 to permit the United States to continue to provide food assistance to needy countries and utilize our surplus stocks. Recognizing the long-term nature of export market development through programs such as P. L. 480, we support maintaining funding in the 1990 Farm Bill at least equal to the amount funded in the 1985 act.

LFBF supports the inclusion of the export credit and credit guarantee programs in the 1990 Farm Bill. The export credit guarantee (GSM-102) has been a major program for the promotion of U. S. agricultural exports. This program has been a successful tool for market share maintenance and is helpful in market development as well. The use of direct export credit programs and intermediate credit programs should also be continued.

Regarding the Targeted Export Assistance (TEA) and the Export Enhancement Programs (EEP), LFBF believes both of these programs have worked well and should be included in the 1990 Farm Bill. The EEP, once it was opened up to the Chinese and Soviets, has been successful in helping bring down stocks, especially wheat. The TEA program has also been successful in increasing U.S. agricultural exports through advertising and promotion programs. Many commodity organizations are currently conducting good export promotion programs with the assistance of the TEA funds. LFBF fully supports such programs and believes the agricultural industry, in concert with the USDA, needs to seek new and expanded markets in both developed and underdeveloped countries for all commodities. The main purpose of EEP and TEA was to recapture markets that were lost due to unfair trading practices of foreign countries and/or the United States embargoes of 1973, 1980, and 1981.

We oppose any export restraints (embargoes) by government except where national security requires such action. The threat of embargoes or other restrictions adversely affects markets and is an inappropriate tool in the implementation of foreign policy. All export contracts calling for delivery of agricultural commodities or products within nine months of date of sale should never be interfered with by the U. S. government, except following an embargo consented to by the Congress. This sanctity of contracts is essential to maintain the United States as a reliable supplier. Sanctity of contracts for delivery of agricultural products in the event of an embargo should be contained in any new legislation. The United States still suffers the effects of a history of embargoes in our attempts to increase export markets.

Since cargo preference requirements make U. S. farm exports less competitive in world markets, we oppose any legislation or decisions to extend cargo preference to any U. S. farm exports and ask that all agricultural exports and export programs be exempt from cargo preference requirements.

While the barter program has not received wide usage, it does hold promise for countries that lack foreign exchange but have natural resources (Mexico, Nigeria, etc.). It might apply to countries with debt problems as well. LFBF also supports the continuation of the cooperator foreign market development program. This program has been viewed as clearly beneficial.

In summary, LFBF believes the 1985 F.S.A. trade provisions have had a positive effect on increasing the amount of U. S. agricultural commodities going to export, and we support having similar provisions in the 1990 Farm Bill. The increase in exports has helped to reduce carryover stocks creating positive pressure on some prices, particularly grains. We will continue to support domestic farm programs that include mechanisms which allow U. S. commodities and products to be competitively priced in the world markets. We also believe that agricultural trade should be emphasized more in the formulation of national economic policy affecting the value of the dollar since the value of the dollar directly impacts U. S. agricultural price competitiveness.

On behalf of the Louisiana Farm Bureau Federation, I would like to thank you for the opportunity to express these views for your consideration.

FORMULATION OF THE 1990 FARM BILL

WEDNESDAY, JULY 12, 1989

House of Representatives,
Committee on Agriculture,
Washington, DC.

The committee met, pursuant to call, at 9:35 a.m., in room 1300, Longworth House Office Building, Hon. E (Kika) de la Garza (chairman of the committee) presiding.

Present: Representatives Brown, Rose, English, Huckaby, Glickman, Stenholm, Volkmer, Hatcher, Olin, Penny, Stallings, Jontz, Johnson, Harris, Campbell, Espy, Sarpalius, Long, Dyson, Lancaster, Madigan, Coleman, Marlenee, Hopkins, Stangeland, Roberts, Emerson, Morrison, Gunderson, Smith, Combest, Schuette, Grandy, Herger, Walsh, and Grant.

Staff present: Bert R. Peña, staff director; Daniel E. Brinza, counsel; Charles Hilty, minority staff director; William E. O'Conner, Jr., assistant minority staff director; John E. Hogan, minority counsel; Glenda L. Temple and Francie Monaghan, clerks; Anita R. Brown, James A. Davis, Joe Dugan, and Thomas H. Lederer.

OPENING STATEMENT OF HON. E (KIKA) de la GARZA, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

The Chairman. The committee will be in order.

The committee continues consideration of the 1990 farm bill.

It is often said that a journey of 1,000 miles begins with the first step. We have taken the first step and this will be the second step as we hear from the agricultural-related associations and organizations. We want to repeat what occurred before the consideration and final passage of the 1985 act because we would like to say at the end that there was no person who wanted to be heard that was not heard. That's our intention.

We have, as in the past, scheduled hearings in Washington. We will be going out into the field also. For the 1985 act, we were, I think, in about 35 States. It's our desire to do so again for the 1990 act and reach out to those that cannot come to Washington. We will be working with you and your associations. We don't want you to give your testimony here and then give it at every place we are throughout the Nation, because that's for your individual members and for the population at large who are interested in the 1990 farm act.

I might also say in regard to that that several weeks ago the President of the European Commission, Mr. Delors, was here. I had the opportunity to visit with him and explain the process that we would go through for the 1990 farm act. I had to explain what field hearings were about. In the countries that have a parliamentary system, legislation is drafted by the government and taken to the caucus of the majority or the coalition in the parliament and then processed through their parliament. They don't reach out and go out to the people for initiatives, for information, for contribution to the concept of what will be drafted or crafted.

As a matter of fact, even the public hearings we have are not as common as you would think for people to come and have input. So this is a tribute to our system and to what this country is all about and, hopefully, what we are all about. We, the members of this committee, will be but the instrument to which the people of America—all the people, not only the producer, but all the people—express their desires or wishes. They in fact will represent themselves with out aid as we move with the legislation.

So to you it may be just a function of representing your association, your organization, but you really, as part of the development of the legislation, will have input. I want you to know that even though you may not think that it is important, it is. That you are here is very important to us and your contribution is very important to us.

Later we'll do the balancing. As you have heard me say many times, legislation is the art of the possible, what's possible that day, that hour, that minute. But how we get there is a more important thing. Hopefully, we will have a contribution from the people in every aspect of the legislation.

We will deal not only with crops, but we will deal with conservation. We will deal with rural development. We will deal, hopefully, with crop insurance. We will deal with environmental concerns. We will deal with trade, domestic and international.

I am very proud to say that we are ahead because I was recently asked—and I don't want to take too much time because we have a long witness list of people who will testify—but I was recently asked, are you going to address conservation and environmental impact by agriculture?

I said, we did it in the 1985 act—sodbuster and swampbuster.

We're not given credit for that.

Are you going to address low input?

I said, we did it in the 1981 act.

You did?

I said, we passed that legislation a long time ago.

You are going to deal with clean water?

I said, we have.

You're going to deal with pesticides?

We have.

For those of you here and those that will be here working with us, we've addressed those issues. It may be that ultimately more needs to be done. But we have been there ahead of when it made the front pages—in conservation, in clean water, in clean air, in protection of habitat for waterfowl, for other species. We have been there.

This is but an extension and a continuation because we don't have permanent legislation in this area, so this is but a continuation of what we have been doing.

Mr. Madigan.

Mr. MADIGAN. Let the show begin.

The CHAIRMAN. Thank you very much.

So we take the second step as we begin the historic trek of arriving some day, hopefully next year, to what will be known as a 1990 farm act.

The first panel will be composed of Mr. Dean Kleckner, American Farm Bureau; Mr. Leland Swenson, National Farmers Union; Mr. Harvey Joe Sanner, American Agriculture Movement; and Mr. Kenneth Stremlau, National Farmers Organization. Kindly come to the witness table.

Before we begin, without objection, all prepared statements will be included in the record. I want to ask all witnesses to cooperate with us and summarize your testimony. Thank you.

[The prepared statement of Mr. Combest follows:]

PREPARED STATEMENT BY CONGRESSMAN LARRY COMBEST OF TEXAS

Mr. Chairman, I take this opportunity to welcome our long list of distinguished panelist, and I look forward to their testimony. As we continue to put together ideas for future farm legislation, it is imperative that we analyze the '85 act, for both the good and the bad, as this committee begins formulation of the 1990 farm bill.

I am hopeful that as we move forward with what will be a hefty hearing agenda, we will hear some innovative and thought provoking proposals that takes us beyond next year's crop. As we all know, what we do in this committee over the next year or two will not just affect near term crops, but crops six years from now will likely be covered by the 1990 legislation.

It is vital that we look at the future of agriculture in formulating policy, and not fight previous battles of years past. Once again, I look forward to the testimony from our distinguished panelist and welcome their thoughts and ideas on the future of agriculture and rural communities.

The CHAIRMAN. Mr. Kleckner, please proceed.

STATEMENT OF DEAN KLECKNER, PRESIDENT, AMERICAN FARM BUREAU FEDERATION

Mr. KLECKNER. Thank you, Mr. Chairman.

I want to start by commending you on your efforts in this hearing and certainly in the 1985 farm bill. In general it was a good farm bill and you had a lot to do with it.

I'm Dean Kleckner. I'm president of the American Farm Bureau. I farm corn, soybeans, and hogs in Iowa. It just doesn't seem very long ago that we were talking about the 1985 farm bill, but conditions today are a lot different than they were in 1984-85. They are important, certainly, but there's less of a crisis mentality today with the agricultural issues than we had back then.

We think the Food Security Act of 1985 played a very important role in improving the economic situation in agriculture. We should not forget that factors totally unassociated with the bill, though, like the price of fuel, favorable marketing conditions for livestock and poultry, some positive developments in farm policies abroad; and certainly, economic growth in this country and the world played major roles in improving the income situation in our agriculture.

I bring this up just to demonstrate that we shouldn't forget that farm policy is just one of many factors that affect profitability.

Agriculture does not exist in the world by itself and farm policy must be consistent, we believe, with the realities of global economic and political forces.

The Food Security Act of 1985 and the other beneficial conditions that I mentioned that we had in the last 4 years have led us to a point that we can make some observations about U.S. agriculture today. I have six points listed there that we can make.

Net income has been at a relatively high levels during the last 4 years is my second point.

Carryover of stocks has gone down—point three.

We think commodity prices are responding to market signals rather than being set by Government programs. That's what we need to have.

We have three policy goals in Farm Bureau for the Food Security Act of 1985: Supporting farm income; pricing our products competitively, and reducing the levels of stocks. The bill was largely successful in getting those things done.

The task before us today is to take the current situation in agriculture and current farm programs and build on those so that agriculture can prosper into the 1990's. But as I stated earlier, we have had these other forces affecting farm income that are beyond the control of Congress.

The next farm bill, gentlemen, should be flexible enough to deal with that uncertain future.

I also have there that I won't read, our policy regarding the next farm bill. You notice in the first part there: Improving net farm income has always got to the primary goal in any farm policy—it's certainly ours.

We favor a market-oriented agriculture. I think the trend is that way now. That means we've got to respond to market signals. Farmers respond to signals, whether it's market or whether it's Government; we respond to signals that are out there and we think it should be market signals that we respond to.

I list some things there—one through eight—that we think ought to be considered in the subsequent act to the act of 1985.

On page 3, I say that the first four points all tie farm programs to market reality. It's there now, and we have to recognize that. We need to sell the products we produce in the marketplace, both domestic and international.

The fifth point that's made is encouraging needed adjustments in resource use. We're talking about flexibility. There needs to be some flexibility, some adjustments that respond to what the market is telling us.

The last point in that paragraph I mention biotechnology. The biotechnology revolution is here. We're not going to turn the clock back. There will be some in time, and over time, some positives for agriculture.

Producers of nonprogram commodities want a greater voice in determination of farm programs. I think sometimes we forget that more than half of the value in this country of the production is outside of the traditional Government farm programs. Those people see themselves left out, in fact, see themselves as put upon by some of the things that people like me that grow a product like corn within the program may be allowed to do with more flexibility. We need to be careful that the shift that's allowed, the flexibility that's needed, doesn't impact those people negatively.

I think we need to address, as I say, in the bottom of the paragraph on page 3, address the issue of Government grain and cotton storage programs. The focus of policy—at the top of page 4—has to be on producing the commodities and demand and selling those commodities in an orderly marketing manner rather than producing for loan prices and storage payments and, thus, burdensome carryover in building up of the supplies.

The same concerns, then, apply to dairy. One item that still needs to be addressed is the butter surplus. That's the only dairy product right now that's being purchased in any significant quantity.

The eighth point deals with exports—deals with the international policy. We support our position in the GATT Round. We say that any trade-related segments in the new farm bill will need to be flexible because, hopefully, there will be some changes that will be coming out of the GATT Round that countries will need to look at and adopt themselves.

I say, though, that we will oppose any proposed provisions which would require the U.S. to take unilateral action to eliminate existing policies. We can compete with farmers anywhere in the world, but we can't compete with governments.

Two other issues that affect farm programs are the Federal budget and environment. We don't think that the Farm Program ought to be strictly budget-driven. Years aren't the same. In the 1985 bill we spent more some years than projected, and less some years than projected.

Environmental issues are very complex. Our first concern, I say in the bottom paragraph on page 4 as I near the end—our first concern is with the opportunity to produce. If the environmental portions of the new farm bill are so restrictive that farmers or ranchers lose the opportunity to use the resources they control, then the farm bill will be a failure regardless of other provisions it may contain.

At the top of page 5, the last half page, I mention soil erosion. I say in the last paragraph there: Since the impacts of the 1985 farm bill on conservation compliance are far-reaching and yet to be fully implemented—they're moving along.

We think it would be prudent to leave well enough alone and let the 1985 legislation run its course.

Second from the last paragraph: While it's easy for someone else to say what should be done in a farming or ranching operation, it's the role of the farmer as a manager of resources to actually make production decisions. As long as the focus is on what is feasible from a management standpoint, strides can be made in improving the environment.

Mr. Chairman, we're looking forward to the 1990 farm bill to further improve the net farm income of our members. We look forward to future hearings on the bill that you will be holding and we would hope to be able to participate in that.

Thank you for this opportunity.

[The prepared statement of Mr. Kleckner appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you very much.

I have been informed that Mr. Kleckner must preside over a meeting of his organization and has asked to be excused. I would hope that we can ask questions of the panel in its entirety but we will make the exception at this time to excuse him.

Is there any member that has a question at this point for Mr. Kleckner?

If not, we thank you for being here and we appreciate your contribution.

Mr. **Kleckner**. Thank you, Mr. Chairman.

The **Chairman**. Mr. Swenson, we would be happy to hear from you at this time, sir.

STATEMENT OF LELAND SWENSON, PRESIDENT, NATIONAL FARMERS UNION

Mr. **Swenson**. Thank you, Mr. Chairman, and members of the committee.

You received copies of the written testimony and I will just highlight that written testimony.

My name is Leland Swenson, I am president of the National Farmers Union, a general farm organization. National Farmers Union stands for a simplified and more direct program that returns to the goal of assuring producers a reasonable livelihood by providing price and income protection on a family farm level of production.

Farmers Union stands for the sustainability of the family farm, whether we're discussing commodity programs or the best stewardship of soil and water resources.

I'd like to direct my comments as to points that we would like to see in the 1990 Farm Program as we mold and develop that through your discussion and action.

In the area of dairy, first, the Support Price Program should reflect a two-tiered approach.

Second, we recommend updating milk marketing orders by consolidating them to the extent that it would improve producer income and market administration. And by replacing the current system of transportation differentials with a new system using multiple basing points and component pricing.

Third, we must review the idea of surplus dairy products.

In the area of livestock, we would recommend a close review of the Packers and Stockyards Act to protect all livestock producers from unfair competition and monopolistic practices by strengthening the enforcement provisions and discouraging mergers resulting in excessive concentration.

In the area of the wheat and the feedgrains section, the Farmers Union believes that bases should be established on units of production, pounds, and bushels, sufficient to meet our domestic, export, and reserve needs. We encourage the farmer-owned reserve program to prevent shortages, and we urge that on-farm storage payments be paid the same as commercial storage.

A cost-saving measure for farm programs would be to target programs to reach only those that are the intended beneficiaries. We would prefer a targeting plan that concentrates on supporting the family farm system of agriculture over a plan that calls for supporting a percentage of all farmers' production.

Secretary Yeutter's preferred way of balancing the agricultural budget seems to be to reduce farm income dollar for dollar saved in the budget. We do not believe that raising loan rates alone will cause disaster for one-quarter of agriculture's cash receipts that come from exports.

We believe that low prices are the problem, not the solution.

Loan rates should be raised to the current market levels at the very least, and the Findley provision should be repealed.

We support crop insurance but cannot advocate an end to disaster programs until more coverage is available on more crops, and in more places. For crop insurance to ultimately replace disaster programs, there must be at least one catastrophic coverage option that performs the same function for providing for lost income.

We advocate a permanent catastrophic loss pool and recommend increasing available coverage by raising yield options and covering production costs.

Subsidy levels should be increased or at least made the same across the coverage levels.

Environmental issues will be addressed, as the chairman said, or continue to be addressed in the 1990 farm bill.

The Conservation Reserve Program could be used as a last resort for land on which the soil type is too sandy to allow any type of chemical use without leaching in the ground water, and for which nonchemical alternatives aren't feasible.

We look at what has made cross-compliance, sodbuster, and swampbuster provisions effective, it is the fear of losing program benefits. If program benefits are removed anyway, we will virtually guarantee that marginal land will be kept in production.

Simplify the Farm Program but don't simply simplify it by eliminating the program. Work within the existing program by first simply making payments based on units of production instead of acreage. That would not only allow the USDA to predict program costs with a greater degree of certainty, but it would allow farmers to farm using crop and field rotations that make sense for their operations.

Second, allow producers a one-time opportunity to prove actual yield.

Third, farmers should be able to enter into a long-term rotation, using such crops as alfalfa and legumes without violating the sodbuster requirements and without losing base. We urge more research and education on water quality. There's a need to balance incentives and penalties, conservation goals, and production needs.

We need to develop practical low-input and nonchemical alternatives for more commodities, not just to protect ground water and lower farm input costs, but to decrease the potential for pesticide residues remaining in our food.

We need a fully staffed Food Safety and Inspection Service, and close cooperation among the USDA, the FDA, and the EPA. We need a farm bill that demonstrates a commitment to sustainability.

We are concerned that the GATT agreement to harmonize health and safety standards means lowering our safety standards at the same time that foreign import levels rise.

National Farmers Union is deeply concerned that the United States is allowing the agricultural export tail to wag the domestic policy dog. Exports comprise only 20 to 25 percent of cash farm receipts.

And exchange rates, global unemployment rates, weather, and other economic and social factors over which Congress, the USDA and our trade negotiators have no control, can lay aside the best laid export plan.

Farm programs are, by necessity, primarily domestic policy tools, and we object to their characterization as trade distorting subsidies.

USDA's efforts to administer the domestic farm programs that were established in 1985 as tools of foreign policy have caused an outward migration from rural America, and left Congress working on rural development legislation in an effort to revive and repopulate rural areas.

Secretary Yeutter suggested that taxpayers may not be willing to continue paying high levels of farm subsidy—and he may be right, particularly as taxpayers realize how much of their money has gone to the multinational grain trade, who is already posting record profits, to help them regain market share.

It's true that we spent more money on farm programs in the last 8 years than the entire history of farm programs. But many of those payments, members of the committee, have helped keep farmers paying their creditors during the time that market value of their crop was being driven down by the administration of the Farm Program.

USDA's failure to understand the willingness of our competitors to fight in the markets has led to tremendous escalation of export subsidy costs, and international negotiations should begin immediately in two areas.

First, to negotiate debt with debtor nations in the Third World to reduce their debt in exchange for economic reforms that will improve their people's standard of living.

Second, for existing markets, international negotiation should take place to achieve long-term agreement on agricultural production and prices—fairer trade on the international level.

In closing, there are other areas that ought to be addressed in the 1990 farm bill if they cannot be resolved this year: Domestic hunger, rural development, agricultural credit, research into industrial uses for agricultural commodities, extension service activities, grain quality standards, and reform of the Packers and Stockyards Act, just to mention a few.

The National Farmers Union looks forward to working with you in the adoption of these issues and conclusion of these issues as well as the 1990 farm bill.

I want to thank you, Mr. Chairman and members of the committee, and would be happy at the close of the panel to answer any questions you might have.

Thank you very much, sir.

[The prepared statement of Mr. Swenson appears at the conclusion of the hearing.]

The CHAIRMAN. Mr. Sanner.

STATEMENT OF HARVEY JOE SANNER, PRESIDENT, AMERICAN AGRICULTURE MOVEMENT, INC.

Mr. SANNER. Thank you, Mr. Chairman.

We have submitted a statement and I'd like to just talk to you this morning, I guess, from the heart, from a soybean farmer who jumped off a tractor at 10:30 the night before and got up at 4 o'clock yesterday morning so I could fly up here and be here today and, hopefully, by 9 o'clock tonight I'm back on that soybean planter again because we've got a crisis situation in Arkansas and much of the country now due to the weather.

We're 30 days behind on soybean plantings. I still have 800 acres personally that is not planted as do my neighbors so we've got a real critical situation out there. I've got two sons and a wife running today. I called home this morning and the boy planted until 2:30 and he was gone before 6 back to the field. So we're in a hectic situation so I'm just going to speak to you about what's happened in that community of mine since the—actually, since 1977. You know, we're hearing some of the same things from some of the same groups that we heard then when I first come to town: If it's not broke don't fix it. Well, it was broke, and we didn't fix it. We didn't fix it in 1977 and we didn't fix it in 1981, and we actually didn't fix the problem in 1985.

We've lost 30 to 40 percent of the producing farmers in my county, and that's pretty typical. Some counties around the country have lost more than that. It is definitely not the fault of this committee—you have had a very hostile environment to work in, what with OMB and USDA and the other folks that I think have been antifarmer all the way through the debate.

I commend you for what you have done. Had you not been as responsive to the needs of rural America, the destruction would have been far worse than what it has been.

There's one thing that's going to correct the problems and take care of a lot of the rural development problems in this concentration in farm numbers and land ownership we've seen—that is, give farmers an opportunity to receive a profit out of the marketplace, and it can be done.

We've had too many experts tell us that price is not important, we just simply need to lower our price and sell more. It's been absolutely devastating out there when we've tried that approach; it simply hasn't worked.

As far as staying the course and keeping what we've got, I think we all know we can't do it. It's took a tremendous amount of money and the Secretary and everybody else said it's probably not going to be sustainable. We must move toward a program that allows us to extract that price out of the marketplace—not a windfall, not a guaranteed income, or even a guaranteed profit; just simply an opportunity, if we're willing to fight the elements to make a profit. You know, some folks said before, early on, don't take away my right to go broke. We didn't take it away and about 40 percent of them went broke because of that.

I'd like to tell you one little story of what's happening because of farm price improvement. And I think the improvement, some credit is due the 1985 farm bill. But most of the credit is due to shortfalls, in the Midwest, particularly last year due to the drought, and other places around the world. We've seen farm prices improve.

I have a local John Deere dealer at home who normally sells 20 tractors a year. In 1986, he sold three tractors. He repossessed 10 after selling 3.

In 1989, this year, he has sold 23 tractors already. Now in 1986, he had 3 employees, down from a normal 18. This year, he has 14 employees. Now, that's just one business. The reason he sold these tractors is that soybean prices went up $3 a bushel—$3 to $4 a bushel last year. It cranked more new money into that rural community than any other one factor. Now, granted we had a record number of deficient payments coming into the rice area. But the soybean price improving caused more people to buy more tractors; there are more new pickup trucks and more new tractors in Des Arc, Arkansas today than there's been in 10 years—and that farm price caused it more than any other one thing.

We really don't believe it's over. In fact, we have some credible economists—and there's not very many economists who I consider credible, but there are some—who say with rising production costs, an inflation factor and some increase in interest, we are going to see a farm crisis in the 1990's that will probably be worse than in the 1980's; and I agree with them. I really believe it could happen.

We have such a tremendous debt load on so many of our producers, it would just take one or two little things wrong and we'll push another layer of farmers over the edge into bankruptcy. I may be in that layer and I don't particularly like it. I like what I'm doing. I want to stay there and keep farming. I want my sons to farm if they can.

However, I don't think you owe me that right. I don't think Government owes me as a farmer any more than they owe anybody else. But I can't see any point in more and more producing farmers going broke with no benefit to society, and I think we've long ago passed the point in time where there was any benefits to society due to gains in productivity and efficiency. We're passed that point. In fact, we are really devastating the rural communities.

There are a lot of good features in the 1985 farm bill—and I see the red light on so I'll hurry, Mr. Chairman. The marketing loan provisions for cotton and rice. We didn't necessarily approve of them when they were passed in AAM. We think we should keep them. We think there should be some changes. For example, we think the loan rate should be raised to the target level. Keep the market loan provisions to not hamper exports, go ahead and keep it as it is, but raise that loan to the target loan.

We could eliminate a lot of problems—the personal identification problem that we've had in the recent past, you almost had to carry a photograph in to prove you're a person to the ASCS office. We could eliminate that problem by raising the loan rate that would allow that farmer to get his income upfront instead of relying on a deficiency payment to be coming at sometime in the future.

After 12 years of watching farm politics and 2 years as national president of AAM, I really don't expect any drastic changes. I haven't seen any in the past and I'm really doubtful that we're going to see them. But just hopefully—just hopefully—we'll take a look at history and what's happened to those rural communities and consider a shift toward a policy that gives us an opportunity to get that price out of the marketplace.

I beg of you to do it. It's absolutely necessary that we do it. We're not going to stop what's happening in rural communities until we do, do it.

Thank you very much.

[The prepared statement of Mr. Sanner appears at the conclusion of the hearing.]

The **Chairman**. Thank you very much, Mr. Sanner.

Mr. Stremlau.

STATEMENT OF KENNETH STREMLAU, ILLINOIS STATE PRESIDENT, NATIONAL FARMERS ORGANIZATION

Mr. **Stremlau**. Thank you.

Mr. Chairman and members of the committee, we in the National Farmers Organization appreciate this opportunity to outline our views of the new farm bill. I would like to say that our national president, Devon Woodland, cannot be with us today because of a board meeting yesterday and today and the breaking of ground for our new building at Ames, Iowa. He does send his best wishes to the committee.

I am here for the first time and I am kind of awed at Washington, DC. I'm very nervous to be in front of this committee. I'm just a plain farmer back in Illinois. I guess I'm also awed at the importance of a profitable agriculture to the economy of the United States, and that's why I'm getting involved.

I am a full-time farmer producing grain near Mendota, Illinois. Mendota is in La Salle County. It's one of the richest farming areas in the United States; and, yes, I'm having problems also. I thought several years ago I had my head above water but it is slowly going under again. There are 30 percent of the other fellows that went under, in the best farming area of the United States.

As State president of the National Farmers Organization, I can assure you that recent international events and negotiations have alerted producer's to the uncertainties that may lie ahead in our commodity markets. I participate in the farm programs and believe strongly that the programs should contribute to the survival of the family farm in this community.

Although we are vitally concerned with rural development and the producer's problems with a number of commodities, this statement will relate primarily to the overall policies and priorities to be established in the new farm legislation.

Said another way, I hope to impress upon you our belief that there must be substantial change in the general policy to be established in the next farm bill. Hopefully, we can concentrate on the specific problems at a later date.

We are increasingly alarmed by the persistence of leaders in both the executive branch and Congress that all policy decisions must be tailored to expansion of our export markets, regardless of the cost to our farm producers.

Statements from our Secretary of Agriculture before the Senate Committee on Agriculture, coupled with conclusions reported from

GATT negotiation sessions in Europe, constitute a clear acknowledgement that policy currently is based on foreign trade and not necessarily favorable to our producers and consumers.

Present legislation cut our prices to levels well below the cost of production, ran up the Treasury bill for a program to unconscienable levels for political reasons, and now we are faced with the absolute necessity of reducing program costs.

We believe that this administration, burdened as it is with the debts and policies established in the 1980's, will fail to convince other major governments that they should terminate all food subsidies and farm programs. That being the case, it well behooves the Congress to take the lead in reshaping our farm policy before we lose another block of family size farmers and have to depend largely upon absentee investors and hired hands for our national food supply.

We submit that it will be impossible to persuade our large world trading partners to subscribe to open trade in all farm commodities without any subsidies and Government support programs. Neither the Congress nor the American farmer should be held hostage to the GATT negotiations for another 2 years. It is foolish to talk about level playing fields as though this were some kid's game.

The nature or the importance of farming in the United States and the survival of the midrange owner/operatores is at stake. We know, as well as you do, that agriculture affects the whole economy. If it is prosperous, our economy is prosperous. If it is down, our economy is down. We must look to Congress to redirect our domestic farm policy along more sensible lines until farmers can do it themselves.

We simply cannot agree that this next farm bill should be dictated by the international traders and the representatives of a number of other governments, all of whom rightfully have in mind their own economic and political goals and objectives.

The next farm bill should be written here and now—not in Europe. It should be at least a 5-year bill. Its authors should keep in mind that exports, important though they may be, are, nevertheless, capable of using only about one-third of our production.

Furthermore, we believe it is quite foolish to expect that our people can pay the high taxes, interest, labor charges, and cost of other inputs in uncontrolled competition with new land, cheap labor, and other countries.

There are alternatives to the GATT with which we can deal effectively on trade in farm products. International trade agreements should be developed in cooperation with other major producing nations on a commodity by commodity basis.

Let us turn to the improvements in the Farm Program that will strengthen our domestic economy in the rural areas.

We believe there is little disagreement among those affected or involved in agricultural policy the past 4 years as to the intent of the 1985 Farm Act. The generic certificates, lowering of price supports, the marketing loan concept, the EEP, were all designed to lower market prices in an effort to be more competitive in the world market.

Ours is an export-driven policy. We as farmers, in the fourth year under this policy, now beginning work on the 1990 farm bill, believe there are several major questions that must be addressed by this committee.

Have the programs worked as intended?

Who are the beneficiaries?

Have low prices and payments been good for our farmers and our domestic economy in the rural communities?

Should we continue in this direction on a long-range basis?

There is enough experience to make some reasonable assessments of whether we are on the right track.

While appraising the major intent and the results of the 1985 legislation, we can readily understand why many may consider it to be a success. It has lowered farm market prices as intended, but that is not good for the farmer.

Most studies, of which we are aware, analyze various program options using the export volumes under each option as a measure of success or failure. The assumed market price under each of the options is the major deterrent in the resulting export volume.

We do not know of a single study or analysis that uses net farm income or farm gate price as a major criteria in deciding future agricultural policy. The 1985 Farm Act dealt with this through tremendous direct payments to farmers, recording the highest cost of any farm program in history.

It is doubtful that anyone would question the statement that the 1985 Farm Act has failed in saving our family farms in rural communities. One-third of our midrange farmers have been lost. Many of our rural businesses and communities are gone because of low farm prices.

Security. The first consideration in redesigning a farm program must be the security of our food supply for the American people. Nearly as important is the urgency of revitalizing the rural areas so as to reverse the recent heavy migration to the cities where social and economic hardships have multiplied at an alarming rate. This may only be accomplished through a number of changes, one of which must be the assurance of improved commodity prices, at least equal to the cost of production.

This country rightfully supports programs to aid the less developed countries in the name of democracy and market development. We also have subsidized many developed countries through our extensive military expenditures and other huge giveaways.

As a nation we continue to borrow money from all over the world to run our Government. Then we ask farmers to turn out big crops and sell them for less than the cost of production in an effort to regain some of the lost favorable balance in foreign trade.

Grain prices and support levels. The permanent authorities are established in the Commodity Credit Corporation Charter Act; and related laws provide ample authority for the Secretary of Agriculture to administer price supports for the major commodities covered by the Food Security Act.

It is recommended that the Congress establish certain guidelines for the 1991–95 crops, including minimum price support levels. Program benefits should be targeted primarily to small and midrange farm and ranch operators.

The owners and all operators on absentee alien-owned land should not be eligible for any program benefits after a certain date.

In fairness, we should provide 1 year of warning and then terminate this form of subsidy for all foreign investors.

Increase nonrecourse loan rates to the 1985 levels for the 1991 crop year, with provision to advance rates thereafter over the next 4 years, in amounts comparable with the increase in the cost of production. Payments should be reduced progressively as loan rates are increased.

Production goals should be established at a level providing national food security but not so high as to depress prices below loan rate levels. The producer would then be eligible to repay the original loan with interest at any time.

Clarify the farmer-owned reserve by requiring the Secretary to offer the producer an option to extend an original loan when supplies temporarily exceed our national requirements for domestic and export markets plus a reasonable contingency reserve. Such optional extensions should be offered for a period of up to 3 years.

Under this plan, the producer would be paid for storage after the initial 9-month loan period and would be permitted to repay the loan at any time. Storage payments would cease when the average national market price reaches 125 percent of the original loan rate. Mandatory repayment would be called when such prices reached 140 percent of the loan rate for a period of 30 days.

The Secretary should be required to continue offering a farm grain storage facility loan on buildings to holp up to 2 years of production on the farm.

An agreement should be negotiated with other countries to establish a world food reserve to furnish relief in the event of regional drought or other major catastrophy.

Mr. STENHOLM [acting chairman]. Excuse me, Mr. Stremlau, you've exceeded your 5 minutes. Are you about to get to the place where you might summarize?

Mr. STREMLAU. Right.

Mr. STENHOLM. Thank you.

Mr. STREMLAU. I'll touch a little on the environment. Much has recently been made on the need for flexibility in program provisions. Most of these expressions originate from commercial concerns interested in higher production of such crops as soybeans. We are confident that farmers will produce to meet market requirements if the prices offered are fair.

In summary, the program emphasis would be placed on price support and production levels that match market demand rather than on Treasury payments. Conservation and sustainable farming concepts would be encouraged and assisted through ongoing SCS and ACP programs.

The United States is now down to about 700,000 full-time farmers and ranchers in this country. We have lost enough. We can no longer afford to dismiss all discussions of price supports for domestic usage at cost of production levels as being in conflict with our efforts to maintain viable export markets. The preservation of our family farms and rural communities must be of overriding concern in the next farm bill.

We thank you very much for your consideration. As I said before, this is my first time. I hope we can visit. Maybe I should leave like Mr. Kleckner, so I don't have to answer questions.

Thank you very much.

[The prepared statement of Mr. Stremlau appears at the conclusion of the hearing.]

Mr. STENHOLM. Thank you, Mr. Stremlau.

Can you be a little more specific into how we go further within the confines of the same type of legislation that you're recommending to us?

Mr. SWENSON. Thank you, Mr. Chairman. I'd be glad to do that.

When you look at the current structure of having targeting, the support levels targeted on the base acres, no matter how much production occurs in that base acres, the incentive is to get more bushels, more pounds per acre, that you can put under loan to the Government, increasing storage costs to the Government. So you produce for the Government program.

National Farmers Union advocates having a support price target loan based on bushels and pounds, having that type of price support system. And that support would then be cut off at that level that meets domestic needs, export needs, and a reserve level.

If you wanted to debate that reserve level, it could be 1 year's production, 2 years production—so that we have a reserve to assure consumers in this country that we have an adequate supply of reserve in case of a natural disaster, such as the drought of this year and last year. That way, the Government targeting is directed to bushels and pounds and farmers have flexibility. They could plant in accordance with crop rotation, and we could decrease environmental concerns with that producer management rather than farming for the farm program to protect your base—because we have commodity bases rather than a farm base.

What we'd like is to have a normal crop base instead of a commodity base.

Mr. STENHOLM. How much of an individual base are you going to support.

Do you have any figures developed as yet as to how large a farm needs to be supported?

The concern, though, is how do we go about allocating the number of pounds or bushels to a "family farm."

If you don't have an answer yet, I hope that in future hearings in the field that we will start dealing specifically with that question.

Mr. SWENSON. I couldn't agree with you more. And the challenge that we have before us is in defining that, but it's first agreeing that the concept has been accepted. The first thing you have to try to do is get the acceptance of a concept and then move forward with the defining of that. It's agreement of where do we achieve the levels of reserve. We pretty much know in tradition what our domestic and export levels have been for production.

Then you have your farmer sign-up at your ASCS office for the distribution of that base of support.

Mr. STENHOLM. I'm a little disappointed in all three of you that you haven't analyzed the triple-base system that this member has authored. However, I will give you time to study the proposal.

Mr. Brown.

Mr. BROWN. Thank you, Mr. Chairman.

May I say to all of you that I think your testimony has been quite constructive and points us in the right direction for the next farm bill. However, it is not going to be easy to solve some of the problems which we all recognize.

I would like to ask for each of you to just comment briefly on an issue which I've been very much concerned about, and that is the relationship between agricultural research and extension programs and farm profitability because I think our goal has got to be to improve both the productivity and the profitability of agriculture—and the two don't always go together. Improved productivity may mean that you're just creating more surpluses, which drive the prices down. Improved profitability means that you're going to produce more cheaply and more effectively than the competitors are and you're going to be able to maintain both good prices and good market share. I'm concerned about how we relate to that.

Research is changing agriculture, and we've got to recognize that and to deal with it. I'd like to have you comment on it briefly, each of you, if you would.

Mr. STREMLAU. Mr. Brown, that is a whole new can of worms. We need to get back to the supply/demand issue. When I started farming some 35 years ago, supply and demand did work favorably. But today, for some reason, I don't feel we have any control over supply/demand.

What has happened there, I don't know, except that the large conglomerates are kind of controlling us. They pay us whatever they want because they know they're going to get the product. And I think the lower they put the price, the more product they're going to get from us.

So we do have a problem with excess production. We're trying to produce to get an increased income and, on the other hand, we're getting penalized because we have too much for the market they tell us.

But do we have too much? This is another big question we have to ask ourselves. Do we have too much food for the world? Are we distributing it right? We've still got half of the world population that's starving. I do think we have to give that some consideration and, maybe—I don't know—get rid of this oversupply. That sure isn't working for us today.

Mr. SWENSON. Congressman, if I may, addressing the research and extension area, I couldn't agree with you more that it has been geared more toward productivity than it has profitability. It's a sad case for a Research and Extension Service. It needs to be geared more to assisting the family farm structure of agriculture in regard to its profitability and the capability to produce efficiently.

When we look at the Farmers Union goal, what we'd like to see in research and extension are efforts geared to new uses for agricultural products, such as ethanol and other alternative energy sources. We'd like to see studies of research and environmental impacts of the chemical-intensive area of agriculture, research on nonchemical alternatives, and integrated pest management.

We'd like to have research on the global warming trends and the impact of traditional farming practices, animal husbandry practices, especially the impact of the biogenetics that's occurring. When you look at the BGH issue by itself, it may increase production; at the same time, we've got a Government program for a whole-herd buyout.

Now, does it make sense for the Government to try to decrease production at the same time as we move forward with the research in the area of production?

I think there's not only an economic issue involved in the profitability, but also social issues that tie in to that research.

So I commend you, Congressman, for your feeling on that issue.

Mr. SANNER. Mr. Brown, I feel that if a land-grant university can't document that their program is going to benefit the family farm system and profitability for that system, then it shouldn't be funded.

Mr. BROWN. I appreciate those comments.

Did you have something?

Mr. STREMLAU. I guess my last sentence was the most important—there's a need for the producer himself to put a price on his products; I see no reason why we can't do that but we need some encouragement from some of our land-grant colleges. As businessmen, which we are, we should put a price on it. If we could demand a price, I think everything else would kind of fall in place. And when we receive a fair price the whole economy is going to shape up.

Mr. BROWN. All right. Thank you very much, gentlemen. I would like to pursue this a little further but in view of the number of members who want to ask questions, I think I'll defer.

Mr. STENHOLM. Mr. Marlenee.

Mr. MARLENEE. Mr. Chairman, gentlemen, welcome to the committee, as all the witnesses, I would welcome them here in Washington to the starting gate of a new farm bill, particularly Helen Waller who is from my district in Montana.

Nothing is simple. Everybody looks at these agricultural programs and seems to arrive at the conclusion that they might be simple. It's a very complicated process dealing with a complicated commodity structure.

We have an integrated agriculture, integrated by commodity, integrated in producing and marketing. But as witnesses who represent farm organizations and farmers and as Congressmen, we should keep foremost in our mind the producer.

Under that, No. 1, protection of markets and income, and a concern for ability to maximize production. That should be foremost in our mind.

International trade should enter in. We live in an international community and perhaps, Mr. Stremlau, that is why the marketplace is not quite as responsible as it once was.

We need to give the producer the tools with which to compete and America will help deal with the trade deficit that we have.

Now, as much as I grouse about environmental activists, I realize that we as a committee must deal with the environmental portion of agriculture or a more antagonistic forum will assume our jurisdiction.

I do not believe that we ought to allow Meryl Streep or Willie Nelson or anybody else to write the farm bill. Program costs or environmental costs should not come out of the producer's income.

We have a chairman and ranking members here who are united, I would say. This is the most nonpartisan committee in the Congress; one of the fairest committees in the Congress. The more we come under seige, the more united this committee tends to become in its efforts to protect the producer.

Now I'm going to ask you as a panel the question: Given the fact that every farm must have a conservation plan; given the fact that we have reached 30.6 million acres of CRP; given the fact that we have a budget crunch and that we're faced with the choice, as a committee, of reducing income protection mechanisms or other producer benefits; and given the choice, Mr. Sanner, of losing more farms—and you said that we've lost 30 to 40 percent of our farmers; and, of course, this is destroying the infrastructure in our little communities. I'm sure that some of those farmers went into the CRP never to return as the face of the land.

Would you, as individuals, respond to the question: Do you favor, or would you favor in lieu of some of the other losses of producer income and protection, favor capping the conservation reserve at the present level?

Now, remember, we've got a conservation plan for every farm, that's both designed to protect the environment and the soil.

Mr. Swenson, why don't we start with you?

Mr. SWENSON. At this point in time, the National Farmers Union sees no reason to necessarily increase the 40 million acre level of eligibility within the Conservation Reserve Program. But as we look at the farm program, it's our hope that we do not structure a Farm Program that diminishes the role of the Conservation Reserve Program and creates an incentive, because of the elimination of price support mechanisms, so that we put marginal land back into production. Much of that land that went into CRP should have never been farmed in the first place.

Mr. MARLENEE. We're not talking about that.

Mr. SWENSON. I know, but I think it's important, because you made the statement about decreasing the income support mechanism because of the budgetary constraints.

If they look at how we structure the price support mechanisms, and have the flexibility for a farmer to make management decisions, then we meet the conservation concerns that you're raising. But as a point of expanding at this point in time, we did not see it.

Mr. MARLENEE. My time is about up.

Mr. Sanner.

Mr. SANNER. We don't necessarily think we need a cap. In my written testimony today, Mr. Marlenee, we are proposing a short-term version of CRP, say a 3-year plan, to where a producer could take part of his base out—up to 30 percent—put it in a legume for 3 years without losing that base. It would be a short-term CRP, if you would. It would be a good conservation practice. It could be a reserve. We think it has some good environmental——

Mr. MARLENEE. Mr. Sanner, do you desire that be a paid CRP?

Mr. SANNER. SRP is what we're talking about—Soil Restoration Program. A producer could take up to 30 percent of his base and leave that in set-aside for 3 years.

Mr. MARLENEE. Is this satisfied paid?

Mr. **Sanner**. No. Maybe some cost-sharing with the Government to see that the legumes—those details could be worked out. But we think it might have an opportunity for producers to do it if they so desire, and it would be in for—not like for 10 years, but for 3 years.

Mr. **Marlenee**. Mr. Stremlau.

Mr. **Stremlau**. The National Farmers Organization would agree that it would be well to let it stay where it is right now. I don't think we have to increase it. If you're worried about production——

Mr. **Marlenee**. Not one of you have answered the question.

Mr. **Swenson**. Repeat it, please.

Mr. **Marlenee**. You all ought to be elected to office.

Mr. **Swenson**. I am.

Mr. **Marlenee**. You should be sitting up here.

My question basically was: Would you rather cut producer income devices and mechanisms that protect that income, producer benefits, or cap the conservation reserve at the present level of about 30.6 million?

Mr. **Sanner**. I would rather cap the reserve if I see it threaten farm income, naturally.

Mr. **Marlenee**. Do the other two concur?

Mr. **Stremlau**. I agree.

Mr. **Swenson**. Yes, if you're reducing farm income compared to the choice, I cannot, as a representative of farmers, advocate lower farm income.

Mr. **Marlenee**. I thank the chairman. I have overextended my time.

The **Chairman**. The gentleman from Oregon.

Mr. **Smith**. Thank you, Mr. Chairman.

I have read most of your testimony and I don't see a provision in any of your testimony regarding exports.

My question is: Where do you stand on the issue of recognizing that certainly by 1992, if we're not in direct competition with the European Community, we will be full-blown? I expect the European Community to tighten the knot around those 12 nations and I am personally very interested in the opportunity for this country to export to meet competition. Export enhancement has done that for us.

I would like to ask each of you if you support export enhancement at present levels or reduced levels, or if you'd indeed see export enhancement as a tool for us to meet strong, especially European Community competition in world markets?

Mr. **Swenson**. Congressman, in regard to the EEP, an export bonus program—if there's one area that I would like to encourage the trade negotiators within GATT to address it's the continued explosion of export subsidies of the European as well as the United States. So I would like to see them center in on that elimination. It would be good budgetarily here as well as within the European Community.

But let's say that doesn't happen. I cannot sit here and say that we would advocate as an organization the abolishment of the EEP program. But I would hope that we could decrease it and they would decrease theirs. That's, I guess, what our objective would be.

But to say that we would advocate its abolishment if they don't, no, we couldn't. I think it has gotten blown out of proportion.

The EEP has been more beneficial to the grain traders than it has been to farmers. It has been very expensive to the taxpayers because we've driven down commodity prices through lowering the loan rates and then implementing the EEP program. So it has been a very costly program that hasn't translated back into improved prices. Because what we've seen in improving prices has come more from the drought than it has from the area of the EEP program.

Mr. SMITH. But you must admit, it also has helped reduce stocks. It has kept us competitive in the world. The European Community spent $11 billion last year on export enhancement. We spent, what, $900 million, with an authorization of some $2 billion. So we barely have our toe in the water.

The point is, this is a tool that we can use to be competitive in the world and I don't think anybody can deny that. Can you?

Mr. SWENSON. If it's going to continue, we have to maintain——

Mr. SMITH. Plan on it, because the European Community isn't going anywhere. We've got the biggest battle of our lives in trade, I foresee, after 1992.

Please, I'd like to hear the rest of the panel.

Mr. SANNER. I think we will always have to have it—the EEP—I think we'll always have to have it, and always have to use it. But I don't think we have to drive prices down to make it effective.

I think our competitors are going to undersell us 10 cents a bushel whether we set the price at $5 or set it at $3. Quite frankly, this idea of driving down prices, I think especially basing our loan rate on market prices, when we set the world price of grain in the United States, then you lower the price to come to the market, then the market lowers, then you lower the loan to come to the market again—it's almost like bidding against yourself at an auction. You start a downward spiral and there's no end to it.

We will always have to have the EEP regardless of what we do with prices in this country on——

Mr. STREMLAU. We will agree with that but we also ought to consider the cost of the Export Enhancement Program. And maybe we should be considering a two-price system or something of that sort. We're putting all our efforts on what we export and it's been noted here several times that only about 25 to 30 percent of our production is exported. So maybe we ought to accept lowering the export market, because I do think—and maybe I'm wrong here—but I do think the United States sets the world market. Because when we set the market, the other people are then a nickel under it. Maybe we should have a domestic market that would pay agriculture a fair price and then do what we have to with the other 25 or 30 percent of production.

Mr. SMITH. If we're selling 20 to 25 percent in foreign markets, that's 20 to 25 percent we don't have in the bins that the American taxpayers are not paying for. That's got to be a huge plus for this country and for the American taxpayers. I mean for a paltry amount of $900 million, we're selling—at least we have a weapon to be able to sell to anybody at competitive prices.

Mr. SWENSON. Congressman, I guess none of us are disagreeing with you. We feel that if the competition and the export subsidies are going to exist in other countries around the world, we must maintain ours.

But as we look at the budgetary constraints and the goal of GATT, let's hope we eliminate that.

Mr. SMITH. That's like wishing for snow in July in Oregon. Of course, it does happen, but not ordinarily.

Thank you.

The CHAIRMAN. Mr. Huckaby.

Mr. HUCKABY. Thank you, Mr. Chairman.

I suspect that the new farm legislation will keep intact the basic loan target price mechanism that has served American farmers so well, in my opinion, for many decades.

However, it appears that over the years there has evolved a quite significant discrepancy between the target price in the various commodities if you relate that to the cost of production. Many of us feel that the target price, of course, is designed to ensure a reasonable profitability or return on investment to the farmers and this, of course, relates to the cost of production.

My question to each of you is simply this: Would you support in the next farm bill efforts to equate the target prices of the various commodities, that is, those that are significantly lower and some of them are 20 percent or so lower than others, to bring them all up to the same level?

Mr. Swenson.

Mr. SWENSON. Congressman, I would agree with you 100 percent. Equity must be set in all commodities in the support levels. That way we don't produce one commodity and maintain that base, you know, in plant, in regard to another commodity, such as we have in the area of oats right now.

I agree with you. Support levels need to be——

Mr. HUCKABY. Thank you.

Mr. SANNER. I would agree, too. As long as we start and go up, Congressman, and don't come down with any of them. I don't think any of them are high enough right now.

The most glaring example of an inequity in the 1985 farm bill is soybeans. I think the primary reason we have soybeans in trouble and, quite frankly, you can't find a soybean farmer in Arkansas anymore. If he doesn't have a program crop—rice, wheat, grain sorghum, cotton, something that won't supplement his soybean operation—he's been out of business a long time ago.

I think the No. 1 reason is we didn't recognize that proper ratio that exists between the different commodities. We need to really consider that in 1990. Since I'm a soybean farmer it's particularly of interest to me that we put soybeans in a proper ratio to the corn target, wheat target, or cotton target if we're going to keep the target price system, and I suspect we will.

As you said, I would disagree that it served producers quite well because you don't lose 30 or 40 percent over a 10-year period serving them well. It has'nt been as effective as it should be.

But if we get soybeans in proper sync with the rest of the commodities, I think we'll all be better served by it.

Mr. HUCKABY. Thank you.

Mr. STREMLAU. I would have to agree with that 100 percent.

Mr. HUCKABY. Thank you.

No further questions, Mr. Chairman.

The **Chairman**. Any other member.

Mr. **Volkmer**. Mr. Chairman.

The **Chairman**. Mr. Volkmer.

Mr. **Volkmer**. Mr. Chairman, thank you very much.

I, too, wish to commend the witnesses for their statements.

Mr. Swenson, in your statement you touched upon something as I see as a serious problem that's oncoming in the 1990's as a result of what we've done on the question of soil conservation and the plans to be effective 1990 to 1995; and that is what a farmer has to do in order to comply with that as what he has to do also in order to maintain his bases under our base program.

I know that you provide in here or suggest maybe a reasonable base. I think we may have to go down—and I want all of you to think about this a little bit—maybe go down to a lower level where farmers may be able to exchange bases in order for farmers to be able to rotate.

I have in my area already come up on a problem where farmers who only have, say, a corn base, and have areas where they have to drill, no till, that corn because of the lay of the land are going to have to no till after 1990, yet, say, have no wheat base—they have no way to rotate in order to maintain that corn base. They are going to have serious difficulty in maintaining any type of acreage.

What I'd like for you to think about is, I have discussed with ASC officials and Soil Conservation officials a possibility of a program whereby within a county you could have farmers who could exchange bases, or in some way allocate bases, to a farmer who wants a 5-year program—1 year corn, next year wheat, 2 years maybe have clover, something like that—and come in with a rotation on that type of land.

Have you all given any thought to that?

Mr. **Swenson**. Congressman, what we'd like to look at in 1990 is a normal crop acreage base and allow that farmer to get into that rotation cycle, doing no till, but switching crops. But through participation in his ASCS office, we think we could address a number of issues, not only within soil conservation, but with other environmental issues in being able to build up the soil through normal production rather than having to maintain that particular commodity base.

I agree with you, Congressman.

Mr. **Volkmer**. Mr. Sanner, do you have any comment on that?

Mr. **Sanner**. Yes, I would agree with what he said. It can be done without adversely affecting other producers, I think. I don't think we have to be so rigid that we could keep a farmer from—push him out of business because he's trying to comply with the conservation rules; I believe it could be worked out.

Mr. **Volkmer**. OK.

Mr. **Stremlau**. I'm sitting in the right place, I'll have to agree with both of the gentlemen.

Mr. **Volkmer**. I know that some of you have suggested and we have given the Secretary authority, discretionary authority, he's refused to use it. Would it not help us also in that regard if the farmer could take 10 percent of his base and use it for a different crop if he felt it would be helpful?

I think some are proposing upping that to 20 percent, without losing his base.

Mr. Swenson. Our organization is not supporting that concept at this time and it would be detrimental to that 20 percent of production that other farmers were signing up within a program to produce. So we're very concerned about the impact that it would have within the commodities that are now produced in that 20 percent.

What we would advocate in the 1990 Farm Program is that we have the price support mechanism tied to bushels and pounds and allow the support and profitability to occur and allow the farmer to make more management decisions and build soil conservation into that, rather than the idea of having to plant on a base to maintain it.

So what we're trying to look at within our aspects of 1990 are some structural changes that not only provide profitability and production and bringing supply more in line with demand on a voluntary basis, but meeting the soil and water concerns that exist.

Mr. Volkmer. What other purposes would a farmer have to rotate other than conservation practices? I mean, other than making better money. In other words, I will eliminate that, like you. In other words, if beans look like they're going to be better next year, I don't want everybody going out and planting beans. I think we all agree on that. But if we can eliminate that and say for what other purpose—I know, as far as I'm concerned, the purpose of soil conservation or crop rotation is a legitimate purpose.

Now, what other legitimate purposes would there be?

Mr. Sanner. Diseases, weed control, for one thing.

Mr. Volkmer. All right.

Mr. Sanner. Our rotation system in Arkansas with rice and soybeans, both crops just do better if you can rotate them.

Mr. Volkmer. Could we leave that up to the county ASCS committee to make determination whether to permit that farmer to do that or not, for that purpose?

Mr. Sanner. I believe I'd rather have the county ASCS doing it than I had these folks down the street down here.

Mr. Volkmer. That's what I mean. I agree with you—that's my thought.

Mr. Sanner. I think 20 percent—we could support the 20 percent, particularly if soybeans were a program crop—like I hope they will be in the 1990 farm bill .

Mr. Volkmer. My time has expired. Thank you, Mr. Chairman.

The Chairman. Any other member.

If not, we thank the witnesses for being here for your contribution, and we look forward to working with you throughout the process.

Mr. Sanner.

Mr. Sanner. Mr. Chairman, could I make one closing remark before I go back to the farm, please?

The Chairman. Yes, sir.

Mr. Sanner. I think probably the best indicator that you gentlemen have as to whether our farm policy is a success or not, is whether farm families are encouraging or discouraging their sons and daughters to stay on that farm. Right now you don't hear of anybody encouraging their sons, son-in-laws, brothers, to take over their farming operation.

You hear people discouraging their kids from staying on that farm; encouraging them into other business.

I think that is probably the best indicator we have that we've got some improvements to make in farm legislation in the 1990 farm bill .

The CHAIRMAN. Thank you all very much.

Mr. SANNER. Thank you.

The CHAIRMAN. I call the next panel. Robert Barrow, National Grange; Ms. Helen Waller, Agriculture Policy Committee; Chuck Hassebrook, Center for Rural Affairs, and Mrs. Alice Parker of WIFE, Women Involved in Farm Economics.

Mr. Barrow.

STATEMENT OF ROBERT E. BARROW, MASTER, NATIONAL GRANGE, ACCOMPANIED BY ROBERT FREDERICK, LEGISLATIVE DIRECTOR, AND LEROY WATSON, LEGISLATIVE REPRESENTATIVE

Mr. BARROW. Mr. Chairman and members of the House Committee on Agriculture, I am Robert E. Barrow from Swansea, Massachusetts, master of the National Grange. The National Grange is a general farm organization whose headquarters are located here in Washington, DC at 1616 H Street, NW.

It is a pleasure for me to be making my first appearance before such a distinguished panel of agricultural experts.

Mr. Chairman, the National Grange commends you for the leadership that you have provided this committee and have unselfishly given to all segments of the agricultural sector.

We appreciate this opportunity to present, in general terms, the provisions the grange would like to have included in the 1990 farm bill. Being new in this position, I have with me this morning Mr. Robert Frederick, our legislative director, and Mr. Leroy Watson, our legislative representative. With your permission, Mr. Chairman, I would like to request that they be permitted to respond to any questions you or the members of the committee may have.

The National Grange supported the Food Security Act of 1985 because we felt that it would meet a majority of the grange's short-term objectives for the United States' agricultural sector and would encourage the prospects for major changes in the rules that oversee the international trading of agricultural commodities.

Our short-term objectives were: To stabilize the farm economy; to increase the United States' agricultural exports; and to prevent the accumulation of large surplus stocks while, at the same time, reducing the reserve stocks that are being held by the Commodity Credit Corporation.

According to a March 1989 report of the U.S. General Accounting Office entitled "Agriculture-Progress Made Toward Goals of 1985 Farm Bill," the bill has met these objectives in varying degrees.

The report said, "Following passage of the farm bill in December 1985, improvements have been seen in the U.S. farm economy, exports, and stock levels."

The Food Security Act of 1985 can be judged as meeting its major policy objectives and should be considered the starting point of the debate on a new farm bill.

International trade is critical to the U.S. agricultural economy. The recent turnaround in U.S. exports is in part a result of two components of the 1985 farm bill—reduced support prices and increased export programs. There is no doubt in our minds that the pressure for an increased world market share by the United States has brought our major competitors to the international bargaining table.

A major question to be addressed is whether or not other countries will partially dismantle or significantly modify their farm programs that restrict trade. Questions for U.S. negotiators include: What part of U.S. policies and programs can or should be given up in return for concessions by other countries?

Another question before us is: Should the United States wait until after the Uruguay Round is completed before it writes a new farm bill?

In the grange's opinion, the answer is "no." New farm legislation should be drafted that will fulfill the financial and export requirements of the United States' food and agricultural industry and that addresses the interrelationships between agricultural policy and environmental quality, conservation, and the quality of life in rural America.

The National Grange supports the marketing loan as one alternative for future commodity programs. The marketing loan is a new concept for the commodity loan program. Farmers who place their crops under loan with the Commodity Credit Corporation would repay their loan at the original loan level, or at a level that has been determined by a set formula of domestic or world market prices, whichever is lower.

The other difference between a pure marketing loan and the regular loan program is that a pure marketing loan is a recourse loan that must be paid back, whereas, a regular loan is a nonrecourse loan the farmer can repay by abandoning the crop to the CCC as full payment.

New technologies in agriculture have brought about a revolution in production and marketing practices that are impacting the structure of U.S. agriculture. These rapid changes have had a severe impact on the owners-operators of family sized farms, farmland ownership and rural communities.

The National Grange believes that the medium-sized traditional family farms should receive the direct benefits from Government programs. As farmers increase their production beyond certain modest points, their benefits from direct Government support programs should decrease, eventually to be eliminated. Society does not benefit from farm programs that equally support a large farm's first and last units of production.

The National Grange believes that the natural resources of the United States, such as soil, air, and water, are unique treasures. We have a long and proud history of support for soil and water conservation programs.

In 1985, the conservation title of the Food Security Act expanded our Nation's menu of policies to address the problems that are involved in soil conservation. Those programs were the conservation reserve, the sodbuster/swampbuster restrictions, and the conservation compliance provisions.

The grange continues to support the Cooperative Extension Service and firmly believes as we struggle to improve the quality of life in rural areas the Extension Service will have increased responsibility. A part of that responsibility must be assisting farmers on an alterative crop product as they venture into these new and specialized activities.

Legislation has been introduced that will provide a number of economic incentives for farmers to switch to USDA-approved, low-input farming practices. Yet, low-input farming is actually management and information intensive.

Farmers need to better understand the complex biological and climate interactions which influence crop and livestock production in order to effectively lower their inputs. But enticing farmers to switch to low-input farming through economic incentives alone will lead many of them into trouble and bankruptcy.

Therefore, because the proposed economic incentives do not address the new management and information needs of truly sustainable low-input farming practices, the National Grange cannot support the Farm Conservation and Water Protection Act in its present form.

We wish to thank Representative Glenn English, chairman of the House Agriculture Subcommittee on Conservation, Credit, and Rural Development for holding hearings on the issue of rural development. We are especially pleased that he wants rural development to be a part of the 1990 farm bill.

The National Grange is still concerned that the agricultural sector is losing too many family dairy farms. The loss of each farm has more of a negative impact upon the rural community than it does upon the Nation's milk supply. Many of the farmers who are leaving the dairy industry are from sections of the country where dairying is the best way to utilize the resources that are available.

For these reasons, the National Grange has requested that the approval of a synthetic bovine growth hormone be delayed until we have a better understanding of its economic impact on family dairy farms.

We also believe that in the past support price cuts have not curtailed milk production in the heavy milk-producing areas.

We are considering all of the proposed alternatives to the present programs, especially those that will take into consideration the regional differences that are based upon the amount of production, the availability to markets, or the percentage of production which could be allocated to CCC stocks.

Following our 123d annual convention, which will be held in November 1989, we will submit the grange's updated position on dairy and other commodity programs to the appropriate subcommittee or to the full House Agriculture Committee.

Mr. Chairman, the grange believes that the Food Security Act of 1985 continues to meet its objectives and should be the foundation of the new farm bill.

We should continue the steady movement toward greater reliance on the market, support prices that are set in relationship to the world's markets, and the gradual expansion of freedom for individual producers to make their own planting decisions based upon the markets and not on the farm programs.

In addition to being budget-driven, the public's concern over the environment and possible health risks will play a large role in shaping the next farm bill.

We look forward to working with the subcommittees and the full committee of obtaining the best farm bill for farmers, consumers, and rural America.

Thank you, Mr. Chairman and members of the committee, for providing the National Grange with this opportunity to present the highlights of our position on the 1990 farm bill.

[The prepared statement of Mr. Barrow appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you very much, Mr. Barrow.

Mrs. Waller, before you begin your testimony, I would like to welcome you back to this committee. I would note for my colleagues and our friends here that you had not intended to be here today. Today you are filling the void created by the loss of the Family Farm Coalition's president, Dixon Terry. We all mourn his passing.

Most of you may know that he was killed late this spring at the age of 39 while baling hay on his family farm. Dixon Terry was a dedicated family farmer who felt that tending the fields and participating in the development of agricultural policy were important to his community, to his family, and to his country, and for that we respected him.

While we often disagreed on the specifics of solutions to problems facing America's farmers, he offered his commitment, strength, and compassion to the debate very vigorously. His inside sense of fair play and sense of humor lent credibility, not only to himself but to your organization's efforts. We are sorry he is not with us today.

I don't usually use this position, and I think perhaps this may be the first time, to make appeals of this nature, but I would like to mention that a memorial fund has been established for Dixon Terry. It's sole purpose is to secure the family farm for his wife and children. I hope that anyone who has not already had the opportunity to join this effort might do so. I will make a personal contribution, but do so in the name of my colleagues on this committee.

We would hope that you would carry this message back to your organization and to the family.

With that we welcome you and we'll be happy to hear from you at this time.

STATEMENT OF HELEN WALLER, CHAIR, AGRICULTURE POLICY COMMITTEE, NATIONAL SAVE THE FAMILY FARM COALITION

Mrs. WALLER. Thank you, Mr. Chairman. Thank you for the kind words and thoughtful acts.

Mr. Chairman and members of the committee, my name is Helen Waller. I am a farmer and rancher from eastern Montana. We raise wheat and feedgrains and we have a small cow-calf operation.

I appreciate very much the opportunity to be here and testify today. I have submitted written testimony but will not read that but will simply orally go through the highlights of it.

As your chairman has indicated, I was here during the debate of the 1985 farm bill and gave very similar testimony, so it's, I think, a real opportunity to be back.

Recently we have seen studies generated assessing the results of the 1985 farm bill. We've seen them from GAO, ERS, CBO, and we hear messages from the administration that seem to tell us that the numbers that matter indicate that we have seen desirable effects, and maybe all we'll need to do is tinker with the 1985 farm bill.

Despite those studies and despite the numbers that are generated, the message that I bring to you here today is that since the 1985 Food Security Act was passed, over 484,000 farm families have left their farms.

It appears that there is a strong commitment from the American people and from Congress to preserve the family farm, owner and operated, system of agriculture. But in effect, the Food Security Act, even at its best, did not allow for enough income for farmers to cash-flow. No business can survive if forced to sell their commodities for less than the cost to production.

Under the Food Security Act, the future of family farms that are family owned and operated is at stake. Efforts such as a higher loan rate on part of the base is simply playing with numbers. For the nearly half a million farm families that have left the farm it has created another whole set of problems into the urban areas where they have gone; but I won't get into that.

I want to talk a little bit about those of us who have hung on. What do our communities look like now?

Many of our main streets, the biggest share of the businesses, are boarded up. Just as an example, I went to a town 66 miles from home yesterday in hopes of shopping for a pair of shoes. The only shoestore there was out of business. I went to a small department store that has a little corner for shoes. That also was closed.

I ended up having to go 165 miles to get to a store where they sold leather shoes made in the U.S.A.—165 miles from home.

This decline in our rural population has also led to a decline in social services. Our rural health care is a disaster. Many hospitals in our rural communities are closing down. We have less educational opportunities. The community colleges are having a tough time staying in business. We have poor roads. There's a tremendous amount of land degradation. Neighbors have moved out. Kids are moving away.

People are simply stressed out for the need of earned income—not borrowed money, not taxpayers' subsidies so that you take from one person to run it through the program and give it to somebody else. These things are happening because there's not enough earned income from the marketplace to sustain our families and, in turn, sustain our communities.

We're hearing a lot about rural economic development. I'm not saying it's a bad idea. But the best rural economic development that there could be, with the infrastructure already in place, is a price at the marketplace for our agricultural commodities. The bottom line is that the family farmer cannot continue to sell commodities for less than our cost of production.

If we are serious about saving the family farm system, we must raise the loan rate to reflect the cost of production at the marketplace. We must have provisions which will manage our supply to bring it in balance with the demand and also establish adequate reserves. We need a marketing certificate program based on units of production. We need a farmer disaster reserve which would allow us a cushion in times of drought and disaster so that we don't have to keep coming back for disaster programs.

The one that you passed last year with the extension this year has been a lifesaver to many, many farmers.

We need to work with major exporting nations to avoid trade wars. That's a very useful function for GATT. But we must provide relief from this economic squeeze that we're in.

In closing, we urge this committee to closely monitor the implementation of the 1987 Agricultural Credit Act. And we look forward to working with the committee in developing credit reforms that for the 1990 farm bill would ensure that as many borrowers as possible would have relief that were provisions of the Ag Credit Act of 1987.

I would emphasize that if America is committed to a system of food production based on family owned and operated farms, then Congress must take a bold step and forge new direction based on fair and profitable prices at the marketplace. Future farm programs can ensure economic stability so that the staggering statistic of 2,500 lost farms per week becomes history.

This is the only way that rural America can prosper.

We look forward to working with you during the upcoming debate and passage of the 1990 farm bill.

Thank you.

[The prepared statement of Mrs. Waller appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you very much, Mrs. Waller.

Mr. Hassebrook.

STATEMENT OF CHUCK HASSEBROOK ON BEHALF OF THE CENTER FOR RURAL AFFAIRS AND THE SUSTAINABLE AGRICULTURE COALITION

Mr. HASSEBROOK. Mr. Chairman and members of the committee, thank you for the opportunity to visit with you today.

I am with the Center for Rural Affairs, which is based at Walthill, Nebraska. The center engages in policy analysis relating to agriculture and we also work with farmers in northeast Nebraska in on-farm research to help them find ways of lowering their production costs.

I am also speaking today on behalf of the Sustainable Agriculture Coalition, which is made up of 10 Midwestern States and Great Plains sustainable agricultural organizations which likewise work with family sized farms.

I commend you for convening this important discussion. It seems to me that the farm bill is a powerful force in shaping agriculture and life in rural America. And because it's such a powerful force, I think that if we really want to get the type of agriculture and type of rural communities that we want, we need to begin this debate by very carefully defining the goals we want to reach in agriculture and rural America and the purposes we're trying to serve with agricultural policy; and then craft specific provisions to advance those goals and purposes.

I'd like to begin by setting forth what I think should be the paramount goals and purposes for the farm bill.

First of all, I would urge you to aim at legislation that seeks to maximize the number of opportunities for people to be self-employed in agriculture and legislation that helps us avoid an economic structure in agriculture marked by great inequality among people.

There's a wide body of research that indicates that a system of agriculture based on moderate sized farms simply creates healthier communities than systems of agriculture that have a few very large operations.

I'd like to read a quote from the University of California study that I believe summarizes that research quite well. The research found that:

> As farm size and absentee ownership increase, social conditions in the local community deteriorate. We have found depressed median family incomes, high levels of poverty, low education levels, social and economic inequality between ethnic groups, associated with land and capital concentration in agriculture.
>
> Communities that are surrounded by farms that are larger than can be operated by a family unit have a bimodal income distribution with a few wealthy elites, a majority of poor laborers, and virtually no middle class. The absence of a middle class at the community level has a serious negative effect on both the quality and quantity of social and commercial services, public education, local governments, et cetera.

Second, I would urge that we strive to develop legislation that helps us both develop and support farming systems that enhance human health, particularly the health of farmers. There's a growing body of epidemiological research that shows that people who farm, people who live in farm communities, and people who use petrochemicals, have highly elevated rates of various types of cancers, particularly leukemias.

For example, there was a study a couple of years ago in Kansas by the National Cancer Institute that showed that farmers who used herbicides for more than 20 days a year have six times the rate of non-Hodgkins lymphoma, a leukemia, than does the rest of the population. I think we ought to be concerned about that.

Third, I'd urge you to aim at legislation that helps us reduce environmental contamination, protect our resources, and by achieving those goals, protect our long-term food security.

I commend you for the strides you made in 1985 in the conservation title in taking what I think were some very important first steps in that direction. I think we need to build on those and we need to broaden them, to include water quality.

In many farm States—25 to 30 percent of the wells are contaminated by farm chemicals. So I think we need to address that.

Of course, finally, I think we need to try to accomplish these goals as we strive to maintain and enhance the efficiency of agriculture and maintain our competitiveness. I think we can do all of those things at the same time.

I want to shift gears for 1 minute and be a little more specific about the types of legislation that will advance those goals.

First of all, and I echo many of the previous speakers, we would urge you to more carefully target Farm Program benefits to moderate sized owner-operated farms. It seems that in this era of budget constraints, we need to get as much benefit as we can out of every dollar. And by better targeting benefits we can use those limited dollars to help the people who most need the help.

We have a number of specific ideas detailed in our legislation along those lines. I think one thing we need to look at is a two-tiered price system. For example, where we support the first $80,000 or $100,000 worth of production of program commodities at the highest level and support production beyond that amount at a lower level.

I believe we also need to look at lower levels of support for people with very high nonfarm incomes who don't need the full level of support from our farm programs.

Second, I would urge you to develop commodity programs which not only include programs like conservation compliance provision to really put somewhat of a stick to prevent poor resource conservation, but also include commodity provisions that really reward good stewardship and do a better job of supporting sustainable agricultural approaches, things like rotating crops to both conserve soil and reduce chemical use.

The 1985 farm bill really penalizes people who rotate their crops. If you don't grow corn in the Midwest, if you want to grow some oats and alfalfa you basically give up your farm program payments to do so. But the people who do that are really doing a good job of stewardship because they're reducing their chemical use and they are reducing soil erosion. I think we need to change that. I have some specifics in my testimony. And I would also urge you in general to look at Senator Fowler's legislation in that respect.

Finally, I think we need to take a closer look at the research title. I think sometimes we don't pay enough attention to the research title. It seems in a sense that the decisions we make about what research is done ultimately go a long way in shaping agriculture, because decisions that are made about what farming systems or what technologies to refine, develop, and research go a long way in determining what systems are eventually put in use on the farm, and they really shape agriculture and life in rural America.

I think Congress needs to very clearly say what it wants the land grants and the USDA to achieve with its investment in agricultural research. Do we want to maintain the same number of farms? Do you want more farms? Do you want more environmental quality? What is it that we want?

Congress needs to say, and I would urge you to include the goals I set forth earlier. Then we need to define some procedures to ensure those goals are in fact reflected in the research priority-setting process.

I think that's particularly important as we hear calls for very substantial increases in Federal funding of competitive grants for agricultural research.

In conclusion, I think these steps emphasizing these goals would be good for rural America. I would also say that I think in the long run if we design farm programs to advance these broad public purposes, we stand a much better chance of maintaining the urban support we need to pass farm bills.

Thank you.

[The prepared statement of Mr. Hassebrook appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you very much, Mr. Hassebrook.

Mrs. Parker.

STATEMENT OF ALICE PARKER, NATIONAL PRESIDENT, WOMEN INVOLVED IN FARM ECONOMICS

Mrs. PARKER. Thank you, Mr. Chairman and committee members.

I am Alice Parker, national president of Women Involved in Farm Economics, also known as WIFE. My husband and I own and operate a diversified irrigated farm at Royal City, Washington.

WIFE is a grassroots organization striving to achieve prosperity for agriculture and the Nation through education, communication, legislation, and cooperation.

I am pleased to have the opportunity to speak to your committee on behalf of the members of WIFE regarding the 1990 farm bill. My written testimony addresses the basic subjects that was to be covered during this hearing and I would be willing to discuss any of it with you. But I would like to spend my time today addressing two issues that are of utmost importance to WIFE.

One, recognition of the farm wife's position in the farm operation; and

Two, food safety and ground water contamination.

In June 1987, WIFE filed a suit against the U.S. Department of Agriculture and the ASCS regulation that states a "husband and wife will be considered one person."

In March 1988, Judge Joyce Hens Green ruled in WIFE's favor. She held that the regulation treating a husband and wife "one person" clearly violated Congress' statutory directives as set forth in various farm bills dating back to 1970.

The USDA appealed that decision. This June, the U.S. Court of Appeals, District of Columbia Circuit overturned Judge Green's decision and ruled in favor of USDA. For more information you can see the "Backgrounder" that I have attached to my written testimony.

WIFE was very disappointed with the latest decision and believes that this unfair regulation should be changed through separate legislation in 1989 or a part of the 1990 farm bill. We solicit the help and support from you, the House Agriculture Committee, in correcting this discrimination.

The provision adopted by Congress in 1987 as a part of the Budget Reconciliation Act corrected a portion of the regulation when it gave a farm wife a "status position" if she acquired her land previous to marriage. It did not address the farm wife who acquires her land after marriage nor did it address a farm wife who is actively engaged in a farm operation.

The present statute seriously puts farm wives at a disadvantage and discourages them from becoming involved in farm enterprises individually.

Women are acquiring land and farm operations after marriage such as our past president Naioma Benson. She was gifted land from her parents when they retired from farming. She has not been allowed by ACSC to keep that as her sole and separate property. She has been required to commingle it with her husband's operation.

A farm wife recently inherited a farm upon the death of her parents. The farm had a CRP contract on it. She and her husband own a farm which also had a CRP contract. She was not included in the contract with her husband since she was a married woman. She was told that she would not be able to keep her inherited farm her sole and separate property, but that it would be commingled under the one with her husband's farm number. This put them over the $50,000 limitation so she was denied the CRP payment on a farm she inherited from her parents.

A member of WIFE stated that she and her sister will inherit her parents' farm. She will be unable to qualify as a "person" since she is married to a farmer, but her sister will because she is not married to a farmer.

A farm wife contacted me recently and stated that she was a working partner in their farm operation but was not recognized as a "person." Across the road from their farm, two brothers farmed together and each one had an individual "person" status.

She asked, why am I denied a "person" status when I am contributing as much to that farm operation as any other individual might be in a corporation or a partnership?

A father and son, or a father and daughter—if the daughter is not married to a farmer, and meets the criteria, they qualify as "separate" person.

It is just the farm wife who is not being recognized as a person.

Farm wives are required to sign all operating loans and are just as responsible for their debts as their husbands, although according to ASCS rules, we as farm wives are not eligible to receive any program benefits.

I personally live in a community property State. I do most of the book work that goes with any sign-up as to the Farm Program. To sign any papers at the ASCS office, I have to have a power of attorney from my husband but my husband does not have to have one from me.

WIFE is not asking that every farm wife be given a payment limitation. We are asking that a farm wife who meets the criteria established for other individuals be given a "person" status and be eligible for program benefits.

We are asking that if a farm wife acquires a farm she be allowed to keep that her sole and separate property.

Prior talk about the 1990 farm bill has been centered around environmental concerns. WIFE shares these concerns but feel we have a different perspective than some of the special interest groups have.

Farmers and ranchers are the true environmentalists. We work with the environment every day. We are dependent upon that environment for our livelihoods. We have the most to lose if that environment is not protected. Therefore, all the talk about how farmers are abusing the environment are only false statements.

We do want to protect our ground water and food supply from contamination but legislation is not the answer—education is.

Modern technology has given us the ability to find out what is in our water but it has not given us the ability to determine which is natural and what is manmade. High school chemistry taught us that nature is made up of chemicals and minerals, so we will always have chemicals and minerals in the environment or food supply.

No one benefits from the scare tactics that are being used today regarding the safeness of our food and water supplies. The chemophobia out there is very real and something that has to be done to quell that fear.

A realistic approach in balancing the benefits and the risks is a must. I urge you, our leaders and our policymakers to base decisions on these issues on a risk/benefit ratio. We want everyone to be winners, therefore, your decisions must be based on facts and not on emotions.

On behalf on WIFE, I want to say thank you for giving us the opportunity to voice our concerns and ideas with you today.

I would be glad to answer any questions that you might have.

[The prepared statement of Mrs. Parker appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you very much, Mrs. Parker, and I thank the whole panel.

Now we'll have questions from members. For the sake of time and no other reason, I would ask members if you would kindly ask one question of the individual panelist and not ask the question of one to be answered by all four because we're quadrupling the time that we're taking for questions. Otherwise, of course, the members will have their 5 minutes.

Questions from members at this point.

Mr. Stenholm.

Mr. STENHOLM. Thank you, Mr. Chairman.

Several of you have testified concerning the targeting of benefits to producers. The difficulty of doing that has always been reviewed by this committee. Granted, it makes good rhetoric but when it gets down to actually developing the proposal, it gets extremely complicated.

Mr. Hassebrook, you make some very detailed recommendations concerning the area of bases and yields. You recommend that base acres should be fundamentally redetermined. You indicated that they should not be according to cropping history but to suitability of the land to grow a respective crop and then to be changed annually.

Would any of you have a comment concerning that recommendation?

Do you all agree or disagree?

Mr. FREDERICK. Congressman, if farmers are given more flexibility, it has been discussed earlier this morning and is under strong consideration for the new Farm Program. If they are given new flexibility in moving their bases and moving their crops, I think sense of good farming practices will move crop production to the land that's best suited for that crop. I agree with you that targeting is a difficult problem.

In 1978, the grange submitted a variable deficiency payment plan, which wasn't very popular—it was before its time. But we will submit to the committee that plan again. And I think perhaps you have read the study that has been done by Lesher, Russell, and Moos, that addresses targeting, and they suggest several ways that targeting can take place.

I have noticed, though, with considerable appreciation and approval, that both the drought bill last year and the drought bill this year, not only puts a cap on it but has a needs test on those who are ineligible to receive drought benefits.

So I'm asking: How did you arrive at $2 million, or $2.5 million? And I think the cutoff in this year's drought bill is $2 million. I don't know if you used any methods to make that determination and if you use some methodology, perhaps that same methodology could be used in determining where that target level should be cut off.

I think that can be done, but I agree that it's very difficult. But I think if we are going to maintain the presence of agriculture in rural America, which the grange thinks is highly important, that we have to find a method of getting program benefits to that class of farmer. Or perhaps we should start over, Mr. Stenholm, in looking at rather than one Farm Program to fit all farmers, that we start looking at more than one Farm Program.

Perhaps there needs to be a Farm Program for large commercial agriculture and then another Farm Program that will maintain the type of agriculture that we want to maintain in rural communities.

I don't think that we can take a program and force it on all farmers.

The CHAIRMAN. Will you kindly identify yourself for the record, not having been one of the original witnesses?

Mr. FREDERICK. Yes, I am Robert Frederick, legislative director of the National Grange.

The CHAIRMAN. Thank you very much, sir.

Mr. STENHOLM. Mrs. Waller.

Mrs. WALLER. I would like to say that there are definitely some inequities in the present base system. I wouldn't say that I necessarily object to what Mr. Hassebrook is suggesting, but I think there are a lot of implications in trying to do it with one fell swoop and I think we better know what the results would be before we actually move in that direction.

We support a shuffling of the bases but our proposal that we will come forward with allows this to be done at the county level where people in their own areas know what the situation is.

Mr. STENHOLM. My time is up so I won't pursue additional issues at this time.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much.

Mr. Morrison.

Mr. MORRISON. Thank you, Mr. Chairman.

Alice Parker, I am very proud of you, from my district, is doing a great job as national president of WIFE.

I'd like to concentrate in just the couple of minutes we have on this idea that if you're married to a farmer you become a second-class citizen—you're not a person—for purposes of the agricultural programs.

I guess one of the concerns has always been, is there a way to define this if we take this on either in separate legislation or the 1990 farm bill so that we don't completely open a box which could be abused and might perhaps dramatically increase the cost of farm programs?

Mrs. PARKER. It is of great concern to us and WIFE that we just don't open the whole Pandora's box. That's why we're spelling out that if that farm wife meets the same criteria, contributing labor, management, financial support, et cetera, that she should be able to qualify.

As it is now, it doesn't make any difference what contribution she's making to that farm operation or if she has an individual farm operation. If she's married to a farmer, she's not allowed to participate.

Mr. MORRISON. So the definition that's there now that works with other relationships—the father, son, daughter, brother relationship is the one that you would seek; it just should not be a bridge because you happen to have a marriage contract between the two of you?

Mrs. PARKER. That's right. That's basically what we're asking. Because we don't feel that every farm wife who's not actively involved in a farm operation should be entitled to payments. There has to be some ties and some criteria there established that makes her qualified as any other individual.

Mr. MORRISON. I'm personally interested and I think other members of the committee will be in assisting with this and would like to ask if your organization could provide the background that you've gained from going through courts at several levels on this issue on how we might write that definition so it resulted in social justice but not an impossible financial burden for the program.

Mrs. PARKER. We'd be most happy to help you with that.

Mr. MORRISON. Thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

Mr. Marlenee.

Mr. MARLENEE. Thank you, Mr. Chairman.

Mrs. Parker, I commend WIFE and the action that they've taken on the payment limitation with regard to the wives of producers or more especially to the husbands of producers, which are the wives—they are the managers. In my own case I know that I'd like a little equal rights with regard to my own financial management in our household.

But I would like to say that I would be most happy to join in an effort, perhaps on the reconciliation bill, to give WIFE the desired direction they want to go in this reconciliation bill if you have language that would accomplish the fact. As far as budget implications, there may be some.

However, I suspect that a good deal of it is principal that we're talking about. We're talking about principal inasmuch as I'm not certain how many husbands and wives would be eligible for the two $50,000 payment limitation. I suspect that there are not that many.

And if you have any figures or could enlighten us, or if we could secure that from USDA, that would be most helpful. In other words, a projection of the budgetary impact of such a move.

Can you give us any information?

Mrs. PARKER. We don't have anything in figures—no way of actually knowing how many women would qualify. But we think in just assessing our own membership it's very few that would be able to do that.

I know I wouldn't qualify because, in the first place, we don't even come near the $50,000 because we don't participate that much in the farm programs. There's many, many farm wives and farmers out there who don't participate in the farm programs because they're not growing program crops. So that eliminates a large scale of them there. We really don't know exactly how many would be affected.

We don't think that the estimates that USDA gave in their response to our lawsuit of $180 million it would cost is anywhere close, because there's not going to be that many women that will even come close to——

Mr. MARLENEE. Do you have any legislative language?

Mrs. PARKER. Not currently. We're in the process of drafting it.

Mr. MARLENEE. I thank the chairman. I yield back the balance of my time.

The CHAIRMAN. I thank the gentleman.

Mr. Penny.

Mr. PENNY. Mr. Chairman, thank you.

I appreciate your testimony this morning. I simply want to acknowledge that on this panel there were three organizations—the Center for Rural Affairs, the National Save the Family Farm Coalition, and the National Grange—who gave support for the concept of targeting. And on the previous panel we had the National Farmers Organization and the National Farmers Union give testimony in support of targeting.

I think it's clear that for a variety of reasons—for budget reasons as well as family farm protection reasons—this is an idea whose time has come. And with so many farm organizations giving support to the targeting issue, it seems to me that between now and the time that we sit down to write the farm bill we ought to be able to get our heads together and agree on a set of definitions and work to get this included in the 1990 farm bill.

We're all moving in the same direction. We have some different approaches and ideas but it's not going to happen unless the five organizations that spoke in support of targeting this morning sit down with those of us on the committee who have been advocating targeting in the last number of years and get behind one specific approach that we can sell.

I think that support out there in the countryside is widespread. I think it's the kind of provision in a farm bill that will also help us on the House floor where we have an awful lot of Members that aren't familiar with agriculture but they do want to save the family farm. And I think a targeting provision in the next farm bill is something that we can sell well with the rest of the Congress.

The **Chairman**. I thank the gentleman.

Any further questions?

The gentleman from New York.

Mr. **Walsh**. Thank you, Mr. Chairman.

I'd like to also thank the panelists for their testimony.

Mrs. Parker mentioned in her testimony chemophobia, which is kind of an interesting new word. But it's something that I think all of us have been concerned about. We've spent a lot of time talking about food safety issues thus far this year.

Who do you think, in your opinion, out there in the American society has the credibility to put consumers' fears to rest about chemicals, or to explain what risk really is, and how much risk we're prepared to deal with in our food supply?

Mrs. **Parker**. I really don't know exactly who they do trust. It seems like they're totally feeling that they're being let down by our whole Government system and our regulation system.

But it seems like to me that when EPA, USDA, and FDA all come out with the same statements and the same true facts that that should be telling them something.

The Meryl Streeps and those all seem to get top billing when those of us who are actually involved in using that—as I previously had invited Meryl Streep to my farm to quell those fears, to come to the farm to see a modern day technology that's being used on our farms to show how safe and what precautions we are taking to make sure that that food is safe and we're not contaminating our ground water. So those kinds of things need to be done.

But I feel like, that you, the leaders in Congress, have a real role to play in educating your constituents, say in New York, that they have nothing to fear.

Mr. **Walsh**. Thank you very much.

The **Chairman**. I thank the gentleman.

Mr. **Brown**. Mr. Chairman.

The **Chairman**. The gentleman from California, Mr. Brown.

Mr. **Brown**. Mr. Chairman, I was struck, as Mr. Penny was, by the testimony here in favor of the targeting approach to marketing loans or other benefits under the farm bill. And I am aware that all of the organizations represented here, which probably represent the large majority of the actual producers, feel that this would be beneficial.

I am concerned about how we're going to handle this problem. What we haven't heard from here are those who would be adversely impacted by this, which may be the farmers who represent a much larger share of the total production of the country, although they represent a much smaller number of individuals—that's the very large farmers in this country.

We do have a very real problem in how we define the targeting mechanism. I hope that we'll be able to work with you to do that. We have experienced in the past, efforts to target certain types of Federal programs—I'm thinking of water subsidies in the West, for example—in which there have been ingeneous people have found many ways to evade the efforts to focus these benefits to benefit the small- and medium-size farmers.

We would face that in any effort that we made to target other kinds of Federal support programs. It's a very difficult and serious problem.

I don't want to ask you to come up with the final answer here this morning. But I invite your attention to the complexity of it and any recommendations that any of you might have.

I want to ask just one question, and this is to Mr. Barrow or Mr. Frederick, because, Mr. Barrow, you have suggested delaying the introduction of BST, and there's a farm structure problem here—this benefits the large farmers. It's the same sort of thing we're talking about with regard to targeting.

The question is: How can you justify delaying this if it should prove to be benign--in other words, have no adverse health effects or adverse effect upon the dairy herd—and yet at the same time, proves to be something that increases profitability and productivity in the dairy industry?

Your only basis for delaying it, then, would have to be its impact on farm structure, it seems to me.

Are we at the point where we can justify that?

Mr. **Frederick**. That is the fear, I think, that is holding back—and I'm sure you're aware of the battle that's ongoing now in Wisconsin, the division in the dairy industry itself, on labeling of the product whether it contains BST or not.

It's a difficult question.

Our membership is concerned and you've depicted it exactly right. They are concerned on the effect, on the structure of family agriculture. We're going to lose dairy farmers because they happen to be the small- and medium-size dairy farmers from an area that has natural resources that are best suited for dairying.

Our concern, and the concern of our membership, are from those areas, and they're just afraid. When this first got developed it was going to be fairly labor intensive. So it was going to maybe be just as easy then for a small farmer to use it and maybe easier than a larger farmer that has 1,000 cows he would have to innoculate daily.

But now I understand that it is up to the point where it can be an implant and they only have to do it every 2 weeks, or even longer. And as research and technology expands, maybe last longer than that, and then it becomes more adverse to the smaller farmer and more advantageous to a larger farmer.

So it's the social impact on rural communities that are going to lose these dairy farms and its effect on structure.

Mr. **Brown**. Again, we're going to have to face this next year and we're going to need all the input that we can get.

I'm personally favorable to broadening the impact analysis to include structural impact as well as environmental impact, health impact, any other kinds of impact. Because I think in the past, a failure to include all of these kind of considerations have led to detrimental impacts on not only the farm community but perhaps the Nation as a whole.

I don't know how to define exactly what it is that we should consider here and I don't know whether it's politically acceptable at this point.

Mr. **Frederick**. It's very difficult. It always is because—sometimes I think that in the grange, as I've expressed it before—that some of these problems are difficult to obtain the solution and an answer because we haven't got very strong direction in what our food and agricultural policy is and what we want it to accomplish.

We've said for many, many years that farm programs do not have a social responsibility. I think that assumption is wrong. My organization thinks it's wrong. It may not have a social responsibility but it has a responsibility for social implications that it creates and it should be taken into consideration in the development of the 1990 farm bill.

Mr. **Brown**. I am inclined to agree with you, that we need to consider the social implications. But the tendency, as you well know, is to look at only the economic implications of the situation like this—and that's not broad enough, in my opinion.

But to develop a sufficient political understanding of the need for looking at the social implications I think is going to be a very large problem.

Thank you, Mr. Chairman.

The **Chairman**. Thank you very much.

Mr. Lancaster.

Mr. **Lancaster**. Thank you, Mr. Chairman.

Ladies and gentlemen of the panel, I regret that I was called out of the room and was not able to hear your testimony but I do have a couple of questions based on what I recall from your written testimony.

Mr. Barrow, I recall in your statement that you speak about the desirability of more flexibility in commodity production, which everyone seems to be talking about now. My concern is the year that everybody decides to plant corn instead of other commodities and the price falls through the floor. We will then have farmers marching on Washington because they all lost their shirts.

How can we build flexibility into the 1990 farm bill but at the same time maintain the integrity of our commodity programs as a means of ensuring that supply and demand are roughly equal?

Mr. **Frederick**. If I may, sir, I will attempt to answer—I'm not sure I've got the answer.

We're only taking a look at this whole area of Mr. Stenholm's triple-base plan, which we have looked at but we have not taken a policy position on. Also, at the total NCA total crop acreage approach, I think the marketplace makes pretty wise decisions. And there's going to be times when there's going to be an overplanting of one commodity and there will be some switching back and forth.

But as the crops move to the most profitable area to grow, I think those wide fluctuations will stop. And under a normal crop acreage, I think there will be a shift of crop production to the soil types and to the areas where that crop is best grown. I think we will see some aberrations early as we build flexibility into a program.

But large commercial agriculture in the United States is in a world market and I think we have to have that flexibility to meet those rapid changes.

Mr. LANCASTER. A question for Mr. Hassebrook. In your statement you talk about the mechanics, really, of research grants, but I'd like for you to talk a little bit, if you would, about our research priorities.

I wonder if we need some structural change in the kind of research we're doing, away from ever-increasing production capability. Perhaps we should focus on minimizing the cost of production, the necessary inputs in producing a commodity at a lower price. This would ultimately help put dollars in the farmer's pocket.

Mr. HASSEBROOK. I agree with you very much. I think that one of the problems is we've never really clearly defined what it is we expect to get out of all of this money we've put into agricultural research.

I agree with you, I think we do need to look at cutting input costs, finding ways for farmers to maintain their productivity while using less inputs to do it.

Let me talk a little bit about BGH or BST, or whichever you prefer. I think one of the questions we have to face there is why did we ever invest public money in developing that technology in the first place?

It probably would have come to the market eventually.

But I think there is a real question of where our priorities lie. We've got a limited amount of moneys to do publicly funded research, and there are many ways that we can do research that will enhance the efficiency of agriculture, help us cut costs, what have you.

I think we ought to focus on those research directions that improve efficiency as they help us reach other goals, help us protect our environment, help us strengthen family-size farms and so forth. There are many ways we can do that. One of the big areas in biotechnology has been trying to develop herbicide-resistant crops so that we could use a broader range of chemicals on crops and presumably get better weed control with herbicides so that we could get 100 percent weed control with herbicides; eliminate cultivation and essentially make it possible for one person to farm more acres.

I wonder if a better focus might not be development of a corn variety that came up to 6 inches in about half the time the varieties do now so we can get better weed control mechanically with less environmental damage and at a lower cost and provide a way for the moderate-size farmers to use their labor and management and earn a return on it by cutting costs.

So I think we need to examine the broad purpose of agricultural research, and these include helping us cut input costs; helping us farm profitably while we do a better job of protecting resources; and maintaining the family farm structure.

Mr. LANCASTER. Thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

Mr. Emerson.

Mr. EMERSON. Thank you, Mr. Chairman.

Mrs. Parker, what response did you get to your invitation to Ms. Streep to come visit your farm?

Mrs. **Parker**. I've not had any response.

Mr. **Emerson**. How long ago did you extend the invitation?

Mrs. **Parker**. In March, when at the hearing, when she testified, and then I reissued it with a telegram following that.

Mr. **Emerson**. We held some hearings in the Domestic Marketing, Consumer Relations, and Nutrition Subcommittee of this committee on the agricultural chemical issue several weeks ago. There was some commentary there to the effect that there is a network of people in Hollywood who are available for hire to different interest groups on the basis that a Hollywood star has a widespread public following that the average farmer or a scientist might not have. It was stated that you can hire these people who will gain widespread media attention just by virtue of their public personality, irrespective of whether or not they know anything about the subject that they are talking about.

I thought that was a very interesting point. I don't know if Ms. Streep belongs to that network or not. But I hope you will reissue your invitation to her so that she might come and see reality instead of grabbing the microphone and making pronouncements on subjects with which she may or may not be familiar.

Thank you.

The **Chairman**. I thank the gentleman.

I might add, I don't like to intervene the members' time on questioning but I did see—it's called Celebrity Connection, that hires out to place a celebrity with a cause that's commensurate either with their career or to enhance their income, or both. The one that I saw is called Celebrity Connection, for those that may be interested.

Thank you very much. We appreciate your——

Mr. **Stenholm**. Mr. Chairman.

The **Chairman**. Mr. Stenholm.

Mr. **Stenholm**. May I ask one additional question of each witness?

The **Chairman**. Yes, Mr. Stenholm.

Mr. **Stenholm**. At what level do you consider a family farm to be?

Mrs. **Parker**. Congressman Stenholm, I have grave concerns about that low level farmer, too, because those farmers are not depending upon their livelihood from the farm—they have an off-the-farm job that basically supports their living. But they are keeping that child, or their children on a farm, with something to do, and they're reaping benefits from that. So I do have some concerns about those kind of people who are getting benefits from the farm programs.

Yes, I basically would like to say that we need to target that to the farmer who is depending on his livelihood from that farm. He and his family farmed——

Mr. **Stenholm**. I yield to my colleague before I pin you down to specifics.

Mr. **Brown**. I thank the gentleman for yielding.

I was going to offer my own suggestion in answer to that, and we tie the figure to the congressional salary and——[laughter]. As long as they don't exceed congressional salaries.

Mr. STENHOLM. Any idea of a range of gross income?

Mr. HASSEBROOK. I would say two things. One is with respect to the hobby farmer and then I'll get to the gross income.

I think with respect to the hobby farmer, the better way to measure that is maybe a need for farm income and you might measure that by the extent of off-farm income.

Someone who works at the local gas station for minimum wage and farms 160 acres on the side, I have no objection to them getting Farm Program benefits; they probably need it.

But if someone is a lawyer in town and makes $100,000, and they have the 160 acres, they farm for fun, I'm not sure we ought to——

Mr. STENHOLM. But to avoid getting that specific and requiring all of the paperwork that would be involved in checking income, I'm trying to look at it from the standpoint of gross income.

Mr. HASSEBROOK. Yes.

Mr. STENHOLM. So should we perhaps look at gross income levels of $4,000 to $10,000?

Mrs. WALLER. That's not high enough. At least in our area where it takes a lot of equipment, you've got such a tremendous investment.

But one of the things that's important I think for me to say is that within the National Family Farm Coalition, we have a lot of legitimate small farmers—a lot of black farmers in the South who depend upon a small acreage and a small income for their livelihood. And we cannot cut them off as well—legitimate small farmers.

Mr. STENHOLM. I was not saying that that was the top amount. Obviously, that would not be fair because we would in fact get someone that we're not shooting at, and I agree with you on that.

Mrs. WALLER. That's correct.

The CHAIRMAN. Yes, ma'am.

Have you finished, Mrs. Waller?

Mrs. WALLER. Yes, thank you.

The CHAIRMAN. Mrs. Parker.

Mrs. PARKER. I have a problem dealing with the gross income because that has a real—it just doesn't figure in there many times. I would like to have it more or less based on whether you're depending on that farm, whether you're full-time farmers or whether you're a part-time farmer who—many people who are wanting to be full-time farmers aren't full-time farmers because they can't afford to be that way; economics are dictating that.

So I would really like to see us base it more on whether that's what you're trying to do—whether you're trying to be a full-time farmer or whether you're just doing it as a sideline—as a hobby, as you say, and not on on the actual gross income.

Mr. FREDERICK. Congressman Stenholm, we have just kind of arbitrarily set at $40,000 gross—farmers that are grossing less than $40,000—I don't know what percentage of them—but I would imagine that not very many of them are engaged in the type of agriculture that are in farm programs.

If they have a small farm, I don't think that they are going to be taking a set-aside in place of what they could produce on it.

We have just picked arbitrarily say $40,000—between $40,000 and $250,000 as that class of farmers that we are really losing. They are either being absorbed or some of them luckily are getting bigger; a lot of them are going down where they become smaller. But it's about 1.6 to 1.8 farmers in rural communities that gross less than $40,000. So maybe this is where we're saying that there ought to be other programs available to assist those type farmers; which if you're going to target program benefits, I think we have to look at all farm income.

I agree with Chuck that we aren't looking to help lawyers and doctors to have small acreages outside of rural communities important as that farm might be to that rural community. So I think you have to consider off-farm income if we consider targeting. But I don't think that you can take a gross figure and say that's the bottom line. It may be that ASCS local committees can make these determinations.

But I think this is one of the problems, as Mr. Brown pointed out, it is complex. The opposition from commodity organizations is going to be strong. It always has been. But I think that can be circumvented and worked with if we look at it from the standpoint of whether the public—if there's any public benefit, from subsidizing that first and last unit of production of commercial agriculture.

I am willing to sit down with the other groups that feel the same way and with any agricultural organizations and take a look at it. Because I think that the budget is going to dictate that we take such action—if not this year, later.

It was talked about in this year's budget and nothing was done, as far as the budget was concerned that was sent up from the administration. But I think that in due course it's going to have to come.

The CHAIRMAN. No further questions. I thank the panel. We appreciate your being here and certainly appreciate your contribution.

The Chair would make an announcement that I'm going to call the next panel and hopefully you might be able to condense, in part, your testimony. It would be the intention of the Chair to recess at 12:30 for 1 hour—12:30 to 1:30. We still have a long list that we will have to listen to before the end of the day so we would ask the indulgence and cooperation of all the witnesses.

James Lee Adams, American Soybean Association; Mr. Reggie Wyckoff, National Association of Wheat Growers; Mr. Jack Kintzle, Government Relations, National Corn Growers, and Mr. Stewart Jessup, U.S. Rice Producers.

If you will kindly come to the witness table, and we will be happy to hear from you at this point, Mr. Adams.

STATEMENT OF JAMES LEE ADAMS, JR., PRESIDENT, AMERICAN SOYBEAN ASSOCIATION

Mr. ADAMS. Thank you, Mr. Chairman. I'm James Lee Adams, volunteer president of the American Soybean Association. I farm in the Second Congressional District of Georgia, and it's a pleasure to be with you here today.

The **Chairman**. Pardon me just a moment. Would you explain "volunteer president"?

Mr. **Adams**. One that is not paid.

I'd like to begin the discussion of this 1990 farm bill from a soybean farmer's perspective and tell you roughly what we've done over the last few years. We have specific recommendations in the written testimony.

However, in December 1987, we formed a group of soybean farmers that were nationwide, representing all regions, that went out in to the countryside to try to determine what we should present to Congress for this 1990 farm bill. In fact, the latter part of this month we're going to have 270 delegates nationwide come in to Des Moines to determine some final option policies so we can develop a program from that point in time. We will have specific recommendations incoming to this committee very soon.

During this work of the 1990's task force, we had over 30 listening sessions out in the countryside very similar to what I think the process you all will be going through. We are looking at all the soybean-producing States when trying to determine what the soybean farmers want.

By design, a majority of our farmers were not members of American Soybean Association. We also developed some videos and sent out questionnaires to well over several thousand farmers. They returned these and we evaluated them as far as their opinion on soybean policy issues.

We have reached some important conclusions during our work. The majority of the soybean farmers support planting flexibility, which to them means greater freedom to make production decisions on their farm based on economic factors and marketing prices.

Soybean farmers do not believe the soybean farm program should support the soybean price received by foreign competition.

There is a significant desire to have an income support for soybeans which is in balance with the support levels of other commodities. ASA's 1990's task force found that soybean farmers do not support Government stockbuilding of soybeans, either through the current nonrecourse loan program or a Government-financed soybean reserve program.

A top concern of these farmers also is the environment. They want a balance between ability for us to compete and also ability for us to enhance these rigid programs. In other words, these rigid programs sometimes makes us make decisions on planting acres that maybe are not in the best long-term interest of our farm from the point of view of rotation, crop yields, chemical uses, and so on.

In conclusion, our philosophy traditionally has been to focus on our soybean farm program while other farm organizations and other commodity organizations would address their respective programs.

However, we do recognize there's an interdependence between commodity programs.

We will continue to address the soybean farm program but it is also increasingly clear the economic signals sent by each Farm Program affects the entire crop production mix since each farmer often produces several crops.

Thank you again, Mr. Chairman, for this opportunity to appear before the committee today. We look forward to working with you and this committee in drafting the 1990 farm bill.

[The prepared statement of Mr. Adams appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you very much, Mr. Adams.

Mr. Wyckoff.

STATEMENT OF REGGIE WYCKOFF, PRESIDENT, NATIONAL ASSOCIATION OF WHEAT GROWERS

Mr. WYCKOFF. Thank you, Mr. Chairman, for the opportunity to present the views of the National Association of Wheat Growers regarding the 1985 Food Security Act.

I am serving as president of the National Association of Wheat Growers this year and my family and I operate a wheat farm near Genoa, Colorado.

As the current president of NAWG, I have enjoyed a unique opportunity to speak with and learn from producers all across the Nation. There are several broad policy concerns that wheat growers that told me they would like to see addressed in the 1990 farm bill.

First and foremost, in the minds of many producers, is the desire to continue current farm policy of providing farmers with an income safety net. The present system of target prices, deficiency payments, and nonrecourse loans have worked to place a floor below which a farmer is protected from adverse price movements.

Furthermore, the continued judicious use of annual set-asides and farmer-owned reserves will provide the necessary fine-tuning to balance grain supplies for international market needs, food reserve goals, and domestic consumption.

The present farm policy was crafted under the shadow of a burdensome oversupply of almost all major commodities. Although most farmers and policy experts agree that a continuation of present policy is in the best interest of the Nation's farmers, there is also a realization that grain supplies and prices have changed dramatically.

Therefore, some fine-tuning will be necessary to ensure that farm program policy does not slow down or stagnate the farm economy. A prime example of this concern is the repeated call for greater planning flexibility.

While NAWG is fully supportive of greater flexibility, the grower-members are adamant that flexibility must not come at the expense of their families' livelihood. This is why the wheat growers are skeptical of the triple-base concept as it appears to be more budget-driven than flexbility-driven.

We see the triple-base plan as nothing more than a back door way of cutting target prices. Furthermore, the proposal ignores the fact that wheat producers often lack the cropping options enjoyed by the Corn Belt or other regions of the country.

Therefore, NAWG would urge the members of this committee to look at the normal crop acreage—or NCA—program, with the inclusion of summer fallow acreage as a viable alternative to the triple base and a more equitable way of addressing flexibility concerns.

The Food Security Act of 1985 marked a major policy shift toward a more competitive export-oriented Farm Program. The cornerstone of our export policy has been the Export Enhancement Program. The program has been used to accomplish three objectives:

First, to compete with unfair trade practices in other countries;

Second, to increase exports of farm commodities; and

Third, to enhance our bargaining position in the Uruguay Round of multilateral trade negotiations.

In the eyes of most wheat producers, the success of the program is without question.

The Enhancement Program represents our Nation's most powerful trade policy leverage. The importance of the program is best understood when we recall that many of our competitors—especially in Europe—have subsidized exports for years. A continuation of the Export Enhancement Program and the myriad of other export programs has never been more vital to the future of our Nation's wheat farmers.

As we move forward with the next round of trade negotiations a strong EEP is our best guarantee that other countries will come to the table in a good faith attempt to negotiate new disciplines and a reduction of trade barriers.

The final broad category that I would like to address today is the environmental arena. The conservation title of the 1985 act marked a major shift by merging, for the first time, Farm Program policy and environmental policy. The sodbuster and swampbuster provisions of that title are worthy goals—and are workable when tied to the basic realization that conservation plans must also be economically feasible. The Department's alternate conservation system is a prime example of balancing our conservation goals with economic reality.

Already farmers are weighing the benefits of participation in the Farm Program against the cost of conservation compliance. This is important to note because there are many people within the environmental community that would like to tie program benefits to some form of environmental plan. We believe that many farmers will find that such a carrot-and-stick approach to addressing environmental concerns will be too much stick and too little carrot.

Instead of placing more strings upon program participation, we should revamp our existing delivery systems for addressing problems within agriculture. A renewed commitment toward research and education will ensure that those of us within agriculture can address concerns about chemical use and its effect upon ground water, the environment, and food safety.

A concerned, united effort by the agricultural community toward addressing chemical use through improved management practices and enhanced education will preclude the need for regulatory solutions to the environment.

Mr. Chairman, thank you for your time.

[The prepared statement of Mr. Wyckoff appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you very much, Mr. Wyckoff.
Mr. Kintzle.

STATEMENT OF JACK KINTZLE, VICE PRESIDENT, GOVERNMENT RELATIONS, NATIONAL CORN GROWERS ASSOCIATION

Mr. KINTZLE. Mr. Chairman, thank you for the opportunity to visit with your committee today for the successor of the 1985 Farm Act.

My name is Jack Kintzle. I serve as vice president of the Government relations committee for the National Corn Growers Association, and my wife and I operate a 900-acre corn and soybean farm about 120 miles east of Des Moines, Iowa.

I have submitted a lengthy statement for the record but at this time I'd like to summarize the National Corn Growers remarks.

All in all, we think the 1985 Farm Act is one of the most successful pieces of farm legislation to come down the pike in some time. It allowed the U.S. agriculture to work through a period of huge surpluses with a prudent acreage reduction program and a moderation of income price support levels.

It also provided a framework within which Congress could address the crisis that confronted the Farm Credit System as well as the devastating drought of 1988.

In fact, your committee has even dealt with the possibility that dry weather could cut our corn crop again this year. Just let me mention also that drought is a very real possibility for this individual corn farmer from one of the major corn-producing areas of the Corn Belt.

Throughout its life, the 1985 Farm Act has maintained a safety net of income support for farmers while contributing a generous share of Federal budget savings.

I know I'm preaching to the choir here, Mr. Chairman, but I want to express our appreciation for Mr. de la Garza's efforts to put into perspective the small share of expenditures for agriculture as a percentage of the total annual Government expenditures.

But the point needs to be repeated. Farm Program spending has fallen almost 60 percent in only 4 years to its current level of about $11 billion. Of course, the program was costing more than anyone would have liked midway through the decade. But the fact is, agriculture has been one of the most responsive participants in the budget process and we think it's high time we get credit for the progress we've made.

Again, the 1985 Farm Act helped bring about the climate that allowed us to rely more on the marketplace for our income. We think its market-oriented features deserve consideration to be included in future farm legislation.

On that same subject of market orientation, a number of agricultural concerns are calling for changes in current law to allow farmers to respond to price signals more closely. Primarily, those interests want to allow farmers to plant more soybeans or oil seeds acres without losing their ability to fully participate in the grain program.

We of the National Corn Growers Association favor giving farmers increased planning flexibility. There are already examples of the concept of flexibility in current law, including the 10-percent substitution rule that's at the discretion of the Secretary of Agriculture, and the free substitution for oats in last year's drought bill.

The 10-25 oilseed planting option for this year, which was also in the drought bill, was also a step toward a workable flexibility program, although it gave USDA the final say in how much acreage could be switched.

We are concerned about what is being left out too often in the debate over flexibility is the word "farmer." If we truly want the market to dictate how many acres should be planted to various crops, farmers should make the decision—not the Government. That's true farmer flexibility.

As you consider flexibility options, please don't allow the desirable goal of following market signals more closely to be used as a cover for unintended in farm income that is so important to the producers of this country.

Let me touch quickly on a few other points that will come up as the farm bill debate gets rolling.

First, although the decrease in support levels has helped return U.S. grain to a more competitive in world markets, we feel that no further reductions are necessary.

Second, we feel that the vigorous export expansion goal of the 1985 Farm Act should be continued in new legislation. For example, we feel your committee should seriously consider making the marketing loan mandatory for corn if it can be shown that our exports continue to face unfair competition in foreign markets.

Finally, in a 1990 farm bill, or in any other legislation, we urge that you support expansion of the various nonfeed uses for corn, including the extension of the fuel tax exemption for ethanol, degradable plastics, corn sweeteners, and the prevailing U.S. Sugar Program.

At the same time, we must also make sure that the by-products of corn processing—that is, corn oil and corn gluten feed—can competitively move into world markets.

Mr. Chairman and members of the committee, I look forward to answering any questions you have today and to working with you in the months ahead as we craft a new farm bill.

Thank you.

[The prepared statement of Mr. Kintzle appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you very much, Mr. Kintzle.

Mr. Jessup.

STATEMENT OF STEWART E. JESSUP, CHAIRMAN, U.S. RICE PRODUCERS' LEGISLATIVE GROUP

Mr. JESSUP. My name is Stewart Jessup, and I appreciate this opportunity, Mr. Chairman, to appear before the committee and present the views of the U.S. Rice Producers' Legislative Group regarding issues related to prospective 1990 farm legislation.

The U.S. Rice Producers' Legislative Group represents rice growers in Arkansas, California, Louisiana, Mississippi, Missouri, and Texas. Our group includes rice growers, rice grower associations, rice marketing cooperatives, and general farm organizations concerned with rice policy.

In this effort, we work closely with the Rice Millers' Association and the Rice Council for Market Development.

Mr. Bob Bor, former chief counsel for the House Ag Committee and former Assistant General Counsel for the USDA, serves as the group's counsel.

I am an active rice grower. I have grown rice primarily, and also other grains—such as wheat and soybeans—for more than 40 years on a farm situated between Stuttgart and DeWitt in Arkansas County, which is on Arkansas' Grand Prairie.

I am also chairman of the board of Riceland Foods, Inc., a marketing cooperative serving farmers in eastern Arkansas and surrounding States.

Riceland markets about 20 percent of the national rice crop.

Our legislative group strongly endorses the rice provisions of the 1985 Food Security Act. We believe the 1985 act has worked extremely well, and we would like to see the rice provisions extended in their present form.

The rice marketing loan included in the 1985 act has made United States rice competitive in world markets. It also has been instrumental in lowering the overall costs of the rice price program support system.

Prior to passage of the 1985 legislation, the Federal Government had accumulated large inventories of United States rice from forfeitures under the price support program. These surplus stocks are now gone, and U.S. rice prices in recent months have been well above the Government's loan rate.

Not only has the 1985 act made U.S. rice competitive and reduced inventories, it has done this while providing farmers an income safety net in the form of the target price system. This safety net protects farm income from the ramifications of unfair trade competition, trade barriers, foreign policy, and broad economic policy decisions.

An example of unfair competition is the virtual ban of rice imports by Japan. While we open our ports to Japanese products, their ports are closed to our rice. We urge your support for opening the Japanese rice market to United States rice.

The target price system provided by the 1985 act is a sound approach to providing an income safety net. I urge that it be included in future farm legislation.

Expanding export markets is essential to any sound U.S. agricultural policy. We believe continuing these export programs that have proven effective in market expansion is important. Of particular importance to the rice industry are the export credits guarantee program and the Public Law 480 export programs.

The Export Enhancement Program provided by the 1985 act has been used to make U.S. medium-grain rice competitive in Turkey by offsetting subsidized exports by the European Common Market.

The Targeted Export Assistance Program has been effective in promoting United States rice in important export markets such as Saudi Arabia.

The Targeted Overseas Promotion Program has benefited U.S. rice farmers by promoting branded, value-added food products which are produced in the United States and sold overseas. These programs have worked for U.S. rice producers and we urge you to include them in the 1990 farm bill.

We understand there are discussions for an environmental title in the 1990 farm bill. Rice farmers are vitally interested in water quality availability and in soil conservation. We are more than willing to reduce chemical use to the most cost-effective levels.

We do not advocate mandating any particular set of production practices since different sections of the country require different practices. We believe, however, that a practical approach which emphasizes research and education is most likely to succeed in allowing the Nation to continue to produce crops while caring for the environment.

Mr. Chairman, these are the comments that we wish to offer for the committee's consideration at this time. We will be pleased to provide additional comments on specific provisions of the 1990 farm legislation at the appropriate time.

Thank you again, Mr. Chairman.

[The prepared statement of Mr. Jessup appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you very much, Mr. Jessup.

Mr. Stenholm.

Mr. STENHOLM. Thank you, Mr. Chairman.

Mr. Adams, I didn't note in your testimony but I thought I had read somewhere that the American Soybean Association was considering pursuing bases in the 1990 farm bill for soybeans?

Mr. ADAMS. Mr. Stenholm, we have looked at quite a few options and we are still looking at them. I don't think specifically right now that we are looking at an idea of per acre basis on soybeans but we may be looking at some other options that farmers will be deciding on.

We do realize we have a problem that maybe we should have taken some advice from the Congressman from Texas in the 1985 farm bill on some items, but we realize we have a problem that needs to be addressed and, hopefully, we will be able to do that in the 1990 farm bill.

Mr. STENHOLM. I continue to be of the opinion that in order to get any kind of flexibility whatsoever into our farm bill and avoid some problems we are going to need to do this. We look forward to working with you and ASA to see if we can develop that.

I would make a couple of observations, though. You are totally correct in your observation that this proposal is budget-driven. I think anyone testifying today that does not believe that we are going to have budget-driven decisions to be made, you are living in a dream world.

When we wrote the 1985 farm bill, the debate centered on whether we were going to be allowed to have $50 to $55 billion in the budget for farm programs. We are not going to have that luxury when we sit down and write the 1990 farm bill.

So I hope this will be the last time that farm groups—particularly commodity groups—come to us saying, "do the impossible."

Now, let me say this. Don't get flexibility and the triple-base proposal mixed up because they're separate. I offer the triple base as a way to avoid cutting target prices. The wheat farmer who has only wheat to plant—let's assume 1,000 acres—and your land will not grow anything else but wheat, I expect you to plant wheat on the flexible acres.

Mr. WYCKOFF. Our concern is not necessarily what I'm going to do in eastern Colorado. My concern is what they're going to do in Iowa and that's where we may increase wheat acreage and then that's going to drive the price back down.

Today at $4 on a farm, I can break even. I'm not going to get rich. But if you drive that down and I've got to produce on that other 90 acres at $2 a bushel, it's not going to work very well.

Mr. STENHOLM. I concede the point that you make on flexibility and the resulting shift in bases.

The days of soybean producers having the best of both worlds is over. I think you are going to have to put some thought and recognition to that—and that's why I say soybeans is going to have to have a base or the triple base will not work.

Inventory management is absolutely vital and necessary to our farm programs. We look forward to working with you.

The CHAIRMAN. Mr. Hatcher, the gentleman from Georgia.

Mr. HATCHER. I have just one question.

James Lee, in your written statement you mention the competition with Malaysian palm oil for soybean producers in this country. I've read in several places recently that that is very bad for your heart and your arteries. Is that true?

Mr. ADAMS. The American Heart Association and others have made that statement, Congressman.

Mr. HATCHER. That ought to put that out.

The CHAIRMAN. Any further questions?

Mr. Volkmer.

Mr. VOLKMER. Mr. Kintzle, I was going to ask you and you mentioned that the possibility of a drought in your area and your corn. I'd just like to know, are you getting rain up in that area at this time? Somebody told me it was raining in Iowa.

Mr. KINTZLE. My farm is in eastern Iowa, which, as I said, is a major corn-producing area in that State.

Mr. VOLKMER. I know.

Mr. KINTZLE. And not only a major corn-producing area but probably one of the most major hog operations in the country also. With regard to rainfall, to give you an idea, in June we started out short on subsoil. We had 1.6 inches in June—the normal is 5. I had no rainfall in July. I called home last night and learned that up to three-quarters of an inch of rain fell. Over the area, rain fell from 2 inches to nothing in a spotty area. Corn is now in the middle of pollination and that critical process could be questionable depending on subsequent amounts of rainfall.

Mr. VOLKMER. What's the condition of your corn? Is it getting ready to tassle?

Mr. KINTZLE. Yes, sir; it was just tassled. In fact, when I left home Sunday I saw some of the first tassles in my crop.

Mr. VOLKMER. It's pretty well stressed, then?

Mr. KINTZLE. Very critical, at this time.

Mr. VOLKMER. We have the same thing in northern Missouri. We're having 100-degree temperatures and winds and no moisture. If you get any rain, you send some up my way.

That leads me really to something else I want to talk about. The chairman, I know, has said how far, and others have said today how great this 1985 farm bill works. But, gentlemen, the prices we're having today—and I don't care if it's on wheat, corn, or beans—now, you tell me it was because of the 1985 farm bill? Mr. Adams?

The price you got on corn—on beans last year and this year is because of the 1985 farm bill?

Mr. Adams. Drought-related. I think we'd be realistic. I think another thing I'd like to mention too, Mr. Volkmer, is, we've got a situation developing in Louisiana, Arkansas, and some other States where they've absolutely been unable to plant.

Mr. Volkmer. That's because of the wet weather?

Mr. Adams. Yes, sir; that's right.

Mr. Volkmer. Mr. Wyckoff, the wheat prices today are because of the 1985 farm bill or because of something happened out in western Kansas, Oklahoma, and northern Texas?

Mr. Wyckoff. We saw wheat prices higher last year where we did not suffer tremendous drought and you have to give this 1985 farm bill and the use of the export enhancement some credit, because we moved out tremendous supplies of Hard Red Winter wheat along with others until we are now down to manageable supplies.

Mr. Volkmer. I won't argue that. But I'm asking you if you give the 1985 farm bill total credit?

Mr. Wyckoff. No, you can't give anything total credit.

Mr. Volkmer. Right, right.

In other words, nature has had something to do with what's happened also, as far as the pricing and the downturn on our stocks?

Mr. Wyckoff. And what's happened in other countries.

Mr. Volkmer. Right.

Mr. Wyckoff. We have increased use of wheat worldwide and we now have world stocks down to manageable levels, and also rice stocks are down so they can't shift. So that's part of it, too.

Mr. Volkmer. I'd like to join in with the gentleman from Texas just for a few minutes—and I have to agree with him, that when we get in here and write this 1990 farm bill that we're not going to be able to spend the kind of money that we spent on the 1985 farm bill. So I think we're going to have to recognize we're going to have to do something to make some change. We're not going to be able to give, in my opinion—we're not going to be able to give the big—I don't care if it's a wheat farmer or a corn farmer, or who, that full coverage on everything he can produce on that target price and still maintain the target prices and loan rates at the present levels with that deficiency payment being that high.

Do you understand that? Everybody understand what I'm saying?

You may not agree with me but I don't see how we can do it with the budget restraints that we're going to have.

So what would you rather have, us just cut the target price? Does anybody want that?

Mr. Jessup. Nobody wants that. However, you've saved a lot of budget exposure in deficiency payments due to the fact that world prices have gone up, particularly in rice.

Mr. **Volkmer**. You've got a little different situation. You've got a marketing loan.

Mr. **Jessup**. We're not going to give the 1985 farm bill full credit either, but it sure helped.

Mr. **Volkmer**. I won't argue that.

Mr. **Jessup**. And, Mr. Stenholm, we did look at the triple-base plan—triple-option base. We worked on it a little bit. We still could look at it some more.

Mr. **Stenholm**. Thank you.

Mr. **Volkmer**. I think we all should look at that. That's what I'm getting at. Sometime it may be easier to let you produce and part of that will be for the market, the rest of it will be under Government protection; in other words, with a subsidy.

Mr. **Jessup**. You've got a big administrative problem in that, though.

Mr. **Volkmer**. Pardon?

Mr. **Jessup**. You have a big administrative problem in a program of that nature. Of course, everybody's 100 percent honest, you see, so we don't have very much of a problem but there are places in there for——

Mr. **Volkmer**. We'll have to get everybody's yields in—actual yields and everything. All of that will have to be in in order to do it.

Let me ask any of you there, then, if you don't like what we're saying, but assuming that we're going to have to cut down, let's say, each year, instead of going $18, $24, or $30 billion for all of our programs, we're only going to be able to do between $12 and $15. Do you all have any ideas as to how we are going to reach those goals?

Mr. **Jessup**. Somebody will have to get cut.

We might agree to some target price cut as against some other complicated program. We'll just have to wait until the time comes and see how we feel about it.

Mr. **Volkmer**. Mr. Kintzle, do you want to make a comment?

Mr. **Kintzle**. Yes, I'd like to make a comment for the corn growers. As you mentioned, or maybe Mr. Stenholm mentioned, that the triple-base concept will result in a budget-saving. Since it's a budget-saving concept with budget-saving complications, we are really going to get to the debate on future target price levels.

We just had a corn grower's government relations meeting, and our farmers at this time talk all about the budget. There's going to be constraints and reductions that's going to be true across the board, in the savings and loans and the HUD. I think at this time because what agriculture has contributed to budget reductions, we're going to be pretty adamant on maintaining the current level of target prices at this time.

Mr. **Wyckoff**. Wheat growers aren't looking for a reduction in target prices.

Mr. **Volkmer**. You're not looking for a reduction in target prices?

Mr. **Wyckoff**. No.

Mr. **Volkmer**. Are you looking anywhere for a reduction in the amount, a Government payment that you receive per bushel?

Mr. **Wyckoff**. If you're talking about this year—50 cents.

Mr. **Volkmer**. No, I'm not talking about this year.

Mr. **Wyckoff**. You're talking about 1984——

Mr. **Volkmer**. 1991 through 1995.

Mr. **Wyckoff**. As long as the world prices stay up, you're not at very much risk. But if we do something foolish to destroy our market share, then there has to be some safety net. Farmers can't control what happens in the world and we're not able to compete against European governments. So that's the reason we're wanting to see that.

As long as we stay up to $4 to $4.50, you're above target price. You're not going to be spending much money on wheat.

Mr. **Volkmer**. I won't argue that. But if wheat prices go down to $2.50—do you understand what I'm saying? That could very easily happen.

What if we hadn't had everything that's happened in this year—last year and this year, as far as drought and wet weather, and everything else, and normal production had prevailed throughout the United States and the world in all grains, I think we'd have a lot different situation than we presently have today.

Mr. **Wyckoff**. We probably would.

Mr. **Volkmer**. We could have that situation by 1991, or 1992, where we're back in with a huge reserve where we have low prices. We could have beans again at $4.75, Mr. Adams.

Mr. **Kintzle**. I would just like to comment and it's one of the things I mentioned in my summary: Uses of corn for ethanol and sweeteners have been issues for some time. It's been a buzz word for a long time. Now ethanol has been moved to the forefront, especially with President Bush's presentation in Nebraska.

I would like to think in these times of what we call correction periods for production and prices, I would be the first to agree that some of our difficulties are the drought of 1988.

I would not want the Congress or the people of this country to think that the farmers—especially the corn farmers and all farmers of the United States—simply rely on Government payments. There's been statements made in the press by people that the Government can insure crop, can insure financial uncertainty, and can insure everything. We just can't do that in agriculture.

We want our living from the marketplace in agriculture, and we want Federal moneys for research, ethanols, exports. That's our goal.

Mr. **Volkmer**. Mr. Chairman, I know my time has run out, but I would like to make one quick statement in that regard.

I well remember some hearings that I held in 1987 in regard to it, and I found that farmers—and some of them were corn farmers in Indiana—80 percent of their income was from the Government. That's the 1985 farm bill.

Mr. **Kintzle**. The only comment I'd like to make to that is: If you think you spent a lot of money on the Farm Program with $26 billion in our problems 3 years ago, you'd have spent at least that on the Farm Credit System and rural banks in the——

The **Chairman**. The time of the gentleman has expired.

The gentleman from California, Mr. Brown.

Mr. **Brown**. Mr. Chairman, I'll be brief.

You gentlemen represent the major crops in this country—the major farm commodities. All of you have indicated an awareness of the fact that agriculture is moving toward what is described as more management and information intensive. I think you have recognized the importance of research in this connection, particularly you, Mr. Adams—I appreciate the statement that you made.

We're going to face a problem in the next year's farm bill in providing for adequate programs of research and education for farmers. And in part this is the fault of the Congress. We haven't kept up even on, say, biotechnology with the recommendations made by the administration.

We are going to have to turn that around and refocus some of these education research programs also.

I'm not asking a question; I'm making a suggestion to you, that you try and continue to emphasize the importance of research and try and make the Members of Congress—and it's not so much the members of this committee, who I think are well aware of it, but other members, including the Appropriations Committee members, on the need to adequately fund this. Research extension, teaching, and other programs of this sort have actually been level or declining for a number of years.

We are going to have to face the reality that in a period when agriculture is going to be changing more than it ever has in history, we're going to have to reverse that decline and to make sure that we're adequately focused on profitability, on some of the biotechnology issues, and on some of the broader issues of the social and other impacts of agriculture. And that that's going to take the best minds that we have in this country.

I certainly hope that you can help us to convince the Congress that this is the direction we need to go.

Mr. ADAMS. Mr. Brown, I couldn't agree with you more. We are seeing a convergence of forces now that are going to force us to do this, or else we're going to really fall by the wayside in American agriculture.

I'll give you a quick example. Brazilian farmers are putting 2 percent of their gross sales now into research alone. We just don't have those type of funds available. That's one thing—and we appreciate your support on our national checkoff bill, and all of you on that. But we have got to step up our pace of research in this country or we are going to be in extreme trouble in 5, 10, or 15 years from now.

Mr. BROWN. Thank you very much.

The CHAIRMAN. I thank the gentleman. I was hoping that we could finish right now, but I have some statements that I feel that I must reply on.

First let me make an announcement, if there are any witnesses this afternoon that are here, or representatives thereof, that might have a scheduling problem with airplanes, et cetera, if you would work with the committee staff and if we can help, or accommodate anyone that may have an early flight out, we will be very happy to work with you.

Mr. Kintzle, you mentioned my effort to show how little we spend on agriculture. This is the time I guess you triggered the time to show the chart.

Mr. KINTZLE. I knew you had those charts somewhere.

The CHAIRMAN. I will do so very briefly. We'll just take a couple of minutes. But, one, the top part is all that is spent in the trillion dollar plus Federal budget. The bottom part is what we spend on agriculture.

If you just abolish the Department of Agriculture, period, you have saved around 4 percent of the total Federal budget—around 4 percent. So how much went to farmers and all of this—that's total Department of Agriculture.

Then let me show you the one that triggered the whole thing. What do we spend on farm support, crop support, the commodity programs? The red is the trillion dollar plus budget. And if you can see the tiny little line at the bottom, that's what's spent on the farm support program, at almost 1 percent—slightly over 1 percent. By now it should be less. That's it.

We are the best fed people in the world for the least amount of disposable income of any other major industrialized nation in the world. If there's any subsidy, it's the American consumer subsidized on the back of the American farmer. That's where the subsidy is.

So whether the 1985 act worked or didn't work, the fact is that here is what is spent. You know what the consumer gets. Also, there have been figures thrown around about how much of the farmer income comes from the Government. The figures I have is less than 10 percent from the Economic Research Service. That's what figures I have.

The major fact is, though, that—and I think this is for our friends not knowledgeable in the area who criticize—although the money goes to the farmer or the producer, he does not take it and put it under the mattress, or goes off on a vacation. The money went to Main Street, rural U.S.A. The money also went to Detroit.

I had a colleague ask, "What do I tell my urban constituency why I voted for your farm bill?"

I said, tell them it's called pickups. No farmer, no pickups.

This is where the money is going—to the drugstore, to the agriculture, to the seed, to the fertilizer, to the State tax, to the county tax. The farmer isn't keeping any of that money.

Government payments account for 9.2 percent of farm income according to the Economic Research Service. So everybody is entitled to some figures. I don't have any quarrel with that.

My colleague here from Missouri said 80 percent. The Secretary says 50 percent. I'll go with the Economic Research Service—9.2. So I think that should be made clear and put on the record.

You look like you want to say something, Mr. Kintzle.

Mr. KINTZLE. Yes, Mr. Chairman. You brought up a good point. Before I came out here to the hearing, being a good farm boy, I did buy this new suit that I have on. I will assure you that the gentleman in the clothing store was more than willing to accept the $150 for the suit.

The CHAIRMAN. What philosophical differences we have should not obscure the point that the farmer has been, and will continue to be, the one that keeps all of us alive. But for funds coming from the Government, he is but the conduit that is really going to all the rest of the people that supply him and give him the tools that he needs to supply us with the food.

I think it should be fair—whether the 1985 act worked or didn't work, is really not that important. The fact is that for the multiplicity of reasons, our farmers are doing a little better now. We are still losing some that we don't want to lose.

We had testimony this morning, still have some on the brink and we don't want them there. But this is the best we could do. I sometimes get frustrated.

There was a man a long time ago who made the blind see, and he made the lame walk. They even said he resurrected someone from the dead—and they hung him from a cross and stabbed him. What do you think they are going to say about humans like us that try to draft a bill to help the producers of America?

So I don't get too terribly upset that they say it worked or didn't work. The major thing is now that we begin the process for what are we going to do in the future.

We have terrible constraints on funding. Yesterday afternoon, we had an ad hoc group that met for our budget reconciliation. We have to save $665 million more, but some is already there. Let me tell you, it was a very interesting session. It was a fascinating session. It was a very challenging session, but it was also very traumatic. It was painful because we now are bottom line.

The last 8 years we have saved over $30 billion. We on this Committee on Agriculture and our colleagues in the Senate, have saved over $30 billion. Yesterday we had to put in 6—actually it's $1 billion plus, but the ones that we have to work with are $665 million. It was painful. We are down to the bone. That's where we have to—that will probably be—we will work it in the full committee tomorrow. It will be made public.

Some people are not going to like where we go to get some of that funding or some of those cuts. But the fact is, that's where we are right now. There isn't much more turf out there.

It reminds me I was down in my district—the upper part of my district—and the drought is so severe there. The farmer didn't have the money for feed, so he just left the cattle on the land, and they grabbed every last blade of grass, and now you see the dust blowing on what should be prime grazing land southeast of San Antonio. This is sad.

But that's about where we are in relation to our budget here in these——

Mr. VOLKMER. Mr. Chairman, in that regard——

The CHAIRMAN. I'd be happy to yield to the gentleman.

Mr. VOLKMER. I want to assure the panel and everybody in the room that I don't—and I know the gentleman from Texas—we don't espouse making cuts. I want you to understand that. Do you understand?

Now, we are under constraints. The gentleman from Texas, our chairman, has very well pointed out that right now we're going through a process, which we hope to complete tomorrow, of just cutting around $665 or $668 million. I said "just" because that is a small amount with what we're going to have to do in the next farm bill.

I want you to take a look at those cuts because I don't think you're really going to like some of them, and I don't like some of them. But it's things we're going to have to face. That's what I'm trying to get across.

Mr. Chairman, I agree with you where there's a little, bitty item down there at the bottom that a small amount goes to the farmer. I hear my farmers say, why do you want to give that money overseas, then? Spend it on the farm program. We can't do that up here. We can't.

We are allocated, Mr. Chairman, so much money for the agriculture budget. Is that not correct?

The **Chairman**. The gentleman is correct.

Mr. **Volkmer**. We can't take money out of anywhere else—defense or anyplace else—foreign aid, no place else. We can only spend the money that we get allocated in the budget for agriculture.

The **Chairman**. The gentleman is correct.

Let me mention, also, the gentleman mentioned overseas. We're going to recess and come back at 1:30. But in the days of Lyndon Johnson—when Lyndon Johnson traveled around the world—he gave away pens with his name on them. And when President Bush hit Poland, right away he gave $115 million. [Laughter.] $25 million in Hungary. Oh, for the days of Lyndon Johnson.

Mr. **Glickman**. Mr. Chairman.

The **Chairman**. The gentleman from Kansas.

Mr. **Glickman**. I apologize for being late.

I just wanted to ask Mr. Wyckoff one question on the Export Enhancement Program. I know that the wheat growers are very strongly supportive of that, as have we been in this committee right here.

I'm just curious if you have been involved at all in the actual implementation of how the program works; how the bids are made; how the offers are handled; and how the people who participate in that program have done?

The reason why I ask is because while I'm a strong supporter of the program, I have growing concern about its management. I think farmers need to be as concerned, not only about moving grain, but to make sure that there is integrity in the program so that we can sustain it.

I know you're for it. I just want to make sure that you want it prudently managed as well.

Mr. **Wyckoff**. We haven't been involved directly all the way through the process. We know that there's problems in some of the implementation of it in the bid process. Maybe that needs to be cleaned up and streamlined so that there's not such a drag between the time the bids are made and by the time they are accepted.

It's always an impact back to the farm when you hear that somebody is outbid and the prices go up, and as soon as they are accepted they, or they are refused; and then they go back down, and then they are accepted 2 days later and the price doesn't come back up.

So there needs to be some cleaning up in the process. We agree with you.

Mr. **Glickman**. Thank you.

The CHAIRMAN. Ladies and gentlemen, the committee stands in recess until 1:30 p.m.

[Whereupon, at 1 p.m., the subcommittee recessed, to reconvene at 1:30 p.m., the same day.]

AFTERNOON SESSION

The CHAIRMAN. The committee will be in order. I apologize for the delay. The House is in session and all of us have meetings here and there. I went to a luncheon and didn't have lunch. I just spoke and I showed them the chart. [Laughter.]

Mr. MADIGAN. Would the chairman like some peanuts?

The CHAIRMAN. I already had some raisins, thank you.

The next panel we have is Mr. Bruce Heiden, National Cotton Council; Mr. Wilbur Gamble, National Peanut Growers—well, I think I will have some peanuts. [Laughter.] Mr. Craig Anderson, American Sugar Beet Growers; and Mr. Jack Nelson, president, Rio Grande Valley Sugar Growers. We will invite you up to the witness table at this time. Mr. Jack Nelson will be accompanied by Mr. Jerry McKee, American Sugar Cane League.

We will proceed in the order in which I called your name, so we will begin with you, Mr. Heiden.

STATEMENT OF W. BRUCE HEIDEN, PRESIDENT, NATIONAL COTTON COUNCIL OF AMERICA

Mr. HEIDEN. Thank you, Mr. Chairman, and members of the committee. I am Bruce Heiden, a cotton producer from Buckeye, Arizona, serving this year as president of the National Cotton Council, on whose behalf I appear today.

The council is the central organization of the cotton industry, representing producers, ginners, warehousemen, seed crushers, merchants, cooperatives, and textile manufacturers from the Carolinas to California. Due to time constraints, I will summarize our written statement, which we have submitted for the record.

Mr. Chairman and members of the committee, you are to be commended for fashioning the Food Security Act of 1985 with its strong market orientation. The marketing loan, together with the foreign market development tools included in the trade title, have given U.S. cotton a much better opportunity to be aggressive competitors in global trade than was possible under previous law.

U.S. agriculture needs a Farm Program that fosters full production. We don't need programs that force the United States into the role of supply adjuster for the world.

Legislation must provide for a consistently competitive price and the ability to offset unfair trading practices, assist foreign customers through special credit arrangements, and expand markets through promotion activities.

You gave us some important pricing and marketing tools in the 1985 act. We are confident that the marketing loan is a fundamentally sound provision for inclusion in 1990 legislation. New farm legislation should also continue to provide for effective foreign market development. We strongly urge you to continue vital provisions such as Public Law 480, GSM Credit, the Export Enhancement Program, TEA, and the Soybean and Cottonseed Oil Assistance Program.

There are a number of other provisions of the 1985 act which we request become elements of new legislation. We support the continuation of the target price/deficiency payment provisions and request that the change in total production cost per acre be used to adjust target prices year to year. Base acreage is another element of the 1985 act which has worked well and should continue virtually unchanged.

Included in our recommendation is continuation of law that gives the Secretary authority to allow transfer of bases among crops within the farm. We do recommend two small changes. To avoid forcing uneconomical production just to protect base, we request that growers be allowed to certify zero cotton production, protect the base, and plant other crops on that acreage.

The other minor change has to do with disaster situations. As it stands now, when weather problems make it highly unlikely that as crop can be made, growers will frequently put seed in the ground just to qualify for deficiency payments. We believe that in such cases the farmer should be allowed to certify zero plantings to protect base and collect the deficiency payment. Our industry has generally not favored the 0/92 provision, but in a disaster situation, we think it makes good sense.

Moving now to payment yield, the 1985 act gives the Secretary discretion to use either an average of program yield with adjustment, or to use a moving average of actual yield. We would request that ASCS be required to record actual yields if the grower requests it, and that the decision to use program yields or actual yields be at the grower's option. The 1985 act offers a recourse loan on seed cotton and provides for the use of generic commodity certificates in payment of Government benefits. Both have worked well and we favor continuing these provisions unchanged.

My final points deal with requirements for Farm Program eligibility. Recently there has been considerable discussion on requiring growers to buy Federal crop insurance as a condition of program participation. In spite of efforts to make it more attractive, most growers simply do not feel that its benefits justify the cost. It doesn't seem right to force farmers into a bad business deal.

Finally, the precedent for linkage between program benefits and environmental concerns was established with the "sodbuster/swampbuster" provisions of the 1985 act. There has been discussion of extending this principle to other environmental concerns.

Farmers want to preserve a balanced environment. Our plea simply is, and has been for many years, that before additional regulations are put in place, or linkage with program benefits is required, that a sound scientific database be established which determines the source and extent of agriculture's effect on the environment.

As you may have noted, Mr. Chairman, there are some important Farm Program issues that we did not address. This is because our industry simply has not had time to work out a unified position. I feel confident that we will be able to come to you later with recommendations in these other areas.

I appreciate your willingness to hear our views, and I would be happy to answer any questions.

[The prepared statement of Mr. Heiden appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you very much, Mr. Heiden. We will defer questions until we hear from the entire panel. We appreciate your cooperation, unless you have problems and need to leave.

The next witness will be Mr. Gamble, National Peanut Growers.

STATEMENT OF WILBUR GAMBLE, CHAIRMAN, GEORGIA PEANUT COMMISSION, ON BEHALF OF THE NATIONAL PEANUT GROWERS GROUP

Mr. GAMBLE. Mr. Chairman, it is a pleasure to appear before your committee on behalf of the producer segment of the Nation's peanut industry. I am Wilbur Gamble, chairman of the Georgia Peanut Commission, and a member of the National Peanut Growers Group. Today I am representing Mr. James Earl Mobley, chairman of the National Peanut Growers Group. As you know, this group represents the interests of peanut-producer organizations in each of the nine peanut-producing States.

It seems like yesterday that we met to discuss revisions to the peanut title of 1985. You may recall at that time the producers offered several amendments to the program. Our proposals were designed to ensure that the consumers of this Nation would continue to be supplied with an abundant supply of healthful peanuts, with little or no cost to the U.S. Government. I am happy to announce that the suggested amendments were made and that, in the opinion of the peanut growers, the program has operated well.

Mr. Chairman, I thank you and the committee for your support of the current law and offer a special thanks to Chairman Rose, Mr. Hopkins, the members of the Tobacco and Peanuts Subcommittee, and their staff, for helping us to improve the Peanut Program in 1985. In addition, I would like to commend my Congressman, Mr. Charles Hatcher, who serves on the subcommittee, for his special help, his district being the largest peanut producer in the entire Nation.

I am sure that you will conclude from these remarks that the National Peanut Growers Group feels that the program is working and needs little, if any, correction in 1990 legislation. As you know, every peanut planted in this country is grown for human consumption in the form of peanut butter, salted nuts, confections, and oil. The production of high quality, wholesome American peanuts requires the highest level of skill and care in growing, processing, storage and handling, and manufacturing.

The Peanut Program operates on a unique two-tier system. The program prescribes that the Secretary of Agriculture shall estimate the market level for domestic edible peanuts, seed and related use, based on actual anticipated needs, annually. In addition, under the program a two-tier support price is established each year by the Secretary. Separate prices are established for the domestic market and for peanuts produced in excess of domestic needs.

Excess peanuts are marketed as exports and are crushed for oil. All peanuts produced in excess of the domestic edible market are eligible for a support price determined annually by the Secretary as having no potential for cost to the U.S. Treasury. Additional peanuts are therefore priced in the marketplace to meet international competition for edible peanuts or for oil. In the 1981 act, all restrictions were removed from the production of peanuts. Any farmer who desired could grow peanuts for the export market. The act also provided that those producers were afforded entry to the domestic market.

Other provisions of the 1985 program ensured that there would be little or no program costs to the Government. Peanuts are perishable. For that reason, offers for crushing sales of loan peanuts, not committed for edible sales, are commenced months prior to the end of the marketing year to assure that all loan inventories are sold and delivered at least 30 days before the end of the marketing year.

There is no carryover stock in the modern Peanut Program. If a pool is required to crush a large number of peanuts at a loss to the pool, the other area pools must make up those losses before patronage dividends are distributed. Since the passage of the modern Peanut Program, cost to the Government has been going down. The Department of Agriculture's projections from the CBO February 1989 baseline show the program outlays for 1989 at $5 million, reducing to $4 million in 1990 and beyond. By 1990, the cost to the Government for the Peanut Program should be very little.

Perhaps the most significant success in the Peanut Program is the high degree of consumer acceptance of the domestic products. An article published in Progressive Grocer in July 1988, studying spreads and syrups, reported peanut butter sales for 1987 at $659 million, an increase in sales over 1986 of 12.2 percent. In 1987, the gross profit from peanut butter was $107 million. It appears that the National Peanut Program is working well for all segments of the industry and, as I mentioned earlier, the National Peanut Growers Group will offer only minor changes in 1990.

That concludes my remarks, Mr. Chairman. I will be happy to answer any questions regarding policies of the National Peanut Growers Group. Thank you.

[The prepared statement of Mr. Gamble appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you very much, Mr. Gamble.

Mr. Anderson, U.S. Beet Sugar Association.

STATEMENT OF CRAIG ANDERSON ON BEHALF OF THE AMERICAN SUGAR BEET GROWERS ASSOCIATION AND THE U.S. BEET SUGAR ASSOCIATION

Mr. ANDERSON. Thank you, Mr. Chairman, distinguished members of the committee. My name is Craig Anderson. I am a farmer and third generation sugar beet grower from Longmont, Colorado, and past president of the Mountain States Beet Growers Marketing Association. As the designated spokesperson for the U.S. beet sugar industry, I appreciate the opportunity to appear before the committee today and request that my full statement be made part of the record. I will summarize the highlights of my prepared testimony.

Mr. Chairman, for many years we have come before this distinguished committee to discuss the problems of the international sugar market and its potentially devastating impact on our Nation, U.S. consumers, and industry. As we begin these important deliberations on the 1990 farm bill, I can tell you that our concerns have not changed because the problem has not changed.

In the absence of an effective international sugar agreement, or a multilateral agreement, to change sugar programs around the world, this committee has skillfully designed and Congress has strongly supported the current Sugar Program. The following goals of the program continue to be achieved:

First and foremost, there have been no shortages of sugar, which is essential in the American food chain. Second, price stability allows producers and our bankers, whom we depend upon, to make plans for more than 1 year at a time. More importantly, fair and stable prices are a major benefit for consumers. Retail sugar prices in Washington, DC are below the average for other world capitals, and on a national basis, U.S. sugar prices have averaged lower since the program was enacted than the 3 years prior to 1982.

We have been accused of ripping off American consumers, which we call the "big $3 billion lie." But the fact is that from 1981 through 1988, the retail price of sugar in the U.S. has actually declined 8.5 percent. During the same period, for 10 categories of sweetener-containing products have increased 26.7 percent.

We saw the previous administration mismanage the program in ways that stimulated its critics. The unreasonably low import quotas initially set for 1988, for example, were accompanied by cries of anguish by administration officials and set off a flurry of editorial handwringing. But, when the quota was increased 34 percent at midyear, no one noticed.

The third goal of the program has been to encourage efficient production. The loan rate has remained at the statutory minimum of 18 cents per pound since 1985. Since 1981, seven beet factories have closed. So, contrary to some critics of the program, there are no guarantees.

We have been accused of growing and expanding production under the protection of the Sugar Program. The fact is, since the 1980–81 marketing year to the present, world sugar production has increased 20 percent, and the U.S. share of global output has actually declined. In 4 of the 8 years the program has been in effect, total U.S. beet sugar production has been lower than it was the previous year.

Fourth, the addition of the no-cost provision to the sugar title has eliminated taxpayer exposure. Finally, a major and essential industry, important to the economic well-being of our communities, has been preserved.

U.S. sugar policy has worked well and is absolutely essential to the future of our industry. While we are here today discussing the future of U.S. ag policy, it is also being discussed in the Uruguay Round of the GATT talks. When the previous administration announced its goal of totally ridding the world of tariff and nontariff barriers to the international trade in agriculture, domestic sugar producers were the first commodity group to endorse the proposal. We believe we would do just fine in a world free of trade constraints, producer and consumer subsidies, export rebates, et cetera, providing, of course, all nations agree to march in lock-step with us toward that lofty goal. We were heartened some 14 months ago when Presidential candidate George Bush assured us there would be no unilateral dismantling of the Sugar Program in his administration.

More recently, however, we have been given cause for great concern. U.S. Trade Representative Carla Hills' letter to the Ambassador from El Salvador, for instance, and the failure of the USTR lawyers to successfully defend the GATT compliance of our import quota program before a GATT panel, are events I know the chairman and other members of the committee are keenly aware of. Our industry is heartened by the chairman's promise to closely monitor the negotiations in progress on behalf of Congress.

We believe U.S. ag policies and programs should be formulated by Congress in Washington, not by the administration in Geneva, Switzerland. Insofar as sugar is concerned, we believe the best signal we can send to our negotiators at the Uruguay Round is a comprehensive and strong domestic Sugar Program that will sustain a viable industry.

We look forward to working with the Cotton, Rice and Sugar Subcommittee in working out the details of this program.

In closing, Mr. Chairman, we want you to know we are aware that all the criticism, unfair and caustic characterizations of the Sugar Program have not been aimed solely at us producers. Surely you, Mr. Chairman, and all the members of the committee who wrote the legislation, guided it to enactment, pushed for fair and proper administration, and defended it time and again, have come in for more than your fair share of criticism also. We have done and will continue to do what we can to educate the media and the public about what is right, proper, and fair about the program. Unfortunately, we don't have the resources so easily generated by the giant industrial users of sweetener who simply want to pay us less for what we produce. We are grateful for what you have done.

On behalf of the nearly 12,000 sugar beet growers, the 100,000 processor employees and their families, and those related industries who depend on the beet sugar industry for their livelihood, thank you very much.

[The prepared statement of Mr. Anderson appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you very much, Mr. Anderson.

The next witness represents a major industrial activity in my congressional district, which has a major economic impact. If you see the chart of what moneys come in and what jobs are generated, certainly the Rio Grande Valley Sugar Growers, Inc. is a major contributing factor in the economic viability of our area. I take pride in welcoming Jack Nelson to speak on their behalf.

STATEMENT OF JACK NELSON, PRESIDENT, RIO GRANDE VALLEY SUGAR GROWERS, INC., ACCOMPANIED BY JERRY McKEE, AMERICAN SUGARCANE LEAGUE OF THE U.S.A.

Mr. NELSON. Thank you, Mr. Chairman. My name is Jack Nelson. I am a sugarcane grower and president of Rio Grande

Valley Sugar Growers, which is a farmer-owned cooperative located in Santa Rosa, Texas.

I would like to thank the members of the committee and you, Mr. Chairman, for holding these hearings and allowing me to express the opinions of sugar growers in the Rio Grande Valley as well as of friends in other U.S. sugarcane producing and processing areas.

Mr. Chairman, I am proud to be one small part of an efficient American farming operation. As a participant in the agricultural industry which produces the highest quality food and fiber of any country in the world, at the lowest percent of the consumers' disposable income, we sugar farmers are no different than wheat farmers, peanut farmers, dairy farmers, corn farmers, soybean farmers, cotton farmers, or any other farmers, in that, as efficient producers, we want to continue to produce. We just need a fair price. We are efficient but, as individual entities, we cannot compete against highly subsidized foreign producers or their governments.

It was in response to actions of those governments that the Sugar Program was included in the 1981 farm bill and renewed in 1985. The U.S. Sugar Program works well, but distortions in the world sugar market persist, so our Sugar Program must continue if we are to survive.

The sugar industry is an important part of U.S. agriculture. Sugarcane is produced in four States: Florida, Hawaii, Louisiana, and Texas. In the 1988–89 crop year, 3.39 million tons of raw sugar from sugarcane were produced in the United States, accounting for a little less than one-half of total U.S. sugar production and one-fourth of total sweetener production.

The U.S. sugarcane industry employs over 70,000 people, producing high-quality cane sugar and byproducts in areas where production of other crops is frequently not economically feasible. Overall, the U.S. sugarcane industry provides over $3.5 billion in economic impact while improving our trade balance and meeting the needs of consumers.

In the 1981–85 period, the U.S. Sugar Program worked well when managed well. Since 1985, when the no-cost provision was added by the Congress, the program has worked smoothly to the advantage of both producers as well as consumers. Without the program, we would have probably closed the sugar mill in the Rio Grande Valley.

Mr. Chairman, I would like to point out that a national survey conducted last year by Cambridge Reports, found that 80 percent of the 1,500 Americans polled said that the price of sugar is very fair when compared to the price of other commodities. Sixty-one percent said they preferred price stability to a fluctuating price, while 75 percent said they favor continuation of the current U.S. sugar policy of supporting prices by limiting imports of foreign sugar.

Mr. Chairman, with your permission, I would ask that this report be submitted for the hearing record as an attachment to my prepared statement.

Before closing, I would like to comment on current attacks on our program. Recently our program has come under scrutiny in the GATT. The United States accepted a GATT panel report finding against the United States use of the headnote 2 authority in the tariff schedule of the United States, under which our sugar import quotas are established. Support from your committee and others in the Congress has discouraged immediate response to the USTR and elimination of quotas. We will be working with the administration and the Congress to resolve this situation in the next farm bill and in the Uruguay Round trade negotiations.

Also pending is an EC complaint against the U.S. section 22 authority on sugar-containing products. There is some fear that the whole GATT negotiating process marks a not-so-veiled attempt to transfer the authority of this congressional committee and the Congress for setting agricultural policy to the Office of the U.S. Trade Representative and others in the executive branch. If this happens, American farmers will certainly be in serious trouble.

Mr. Chairman, under your leadership, the Congress has provided a "balanced fulcrum" for the U.S. sugar industry over the last 8 years. You have helped fend off the well-financed but senseless attacks on the Sugar Program. Now time has come to look to the future, and the domestic sugarcane industry stands ready to be a part of the solution to any problems which may exist either domestically or internationally. The domestic sugarcane industry looks forward to working with the Congress and the leadership of the Agriculture Committee in developing a farm policy for sugar in the 1990's that is reasonable and which will provide a favorable economic climate for continued sugar production in the United States. We believe the current program provides a firm foundation on which to build such a program.

Thank you, again.

[The prepared statement of Mr. Nelson appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you very much, Mr. Nelson.

Mr. McKee, did you wish to address the committee?

Mr. MCKEE. Mr. Chairman and members of the committee, I thank you for the opportunity to be here. I don't have a prepared statement. I just came along in case there were questions that maybe relate more to my area of sugar production. That's the only reason I'm really here right now.

The CHAIRMAN. Thank you very much, sir.

The gentleman, Mr. Rose.

Mr. ROSE. Mr. Chairman, I want to start by welcoming Wilbur Gamble here as a representative of the National Peanut Growers Group. Wilbur, thank you very much for your testimony.

I would like to just emphasize one of the things you said and see if I understand it right. You said that the Progressive Grocer says that peanut butter sales for 1987 were $659 million and that that year the profit—I assume it's for the profit on those sales—was $107 million; is that right?

Mr. GAMBLE. That's correct.

Mr. ROSE. I would say that's a pretty good profit, wouldn't you? Is that the point you were trying to make there?

Mr. GAMBLE. It's better than most peanut growers made, I would suspect.

Mr. Rose. Are you aware of some discussions that had taken place between the National Peanut Growers Group and various users about possible changes in the Peanut Program?

Mr. Gamble. Yes, sir. I was in attendance at two of those discussions—really three discussions. They made some proposals to the growers.

Mr. Rose. Is there anything about those proposals that particularly bother you?

Mr. Gamble. Most of the things about them bothered me. [Laughter.]

Mr. Rose. Well, I appreciate your saying what you think. It's a pleasure to work with you and I look forward to working with you on adjustments to the 1990 farm bill.

As to Mr. de la Garza's constituent, Mr. Nelson, you said on page 7 of your testimony that "There is some fear that the whole GATT negotiating process marks a not-so-veiled attempt to transfer the authority of this congressional committee and the Congress for setting agricultural policy to the Office of U.S. Trade Representative and others in the executive branch."

Are you aware that when Mr. Yeutter came before this committee to talk to members of the committee, when he was first being sworn in, he told us that he really didn't think we needed to do a whole lot in this committee other than to adopt the GATT proposal. You heard all that, didn't you?

Mr. Gamble. I heard it, yes, sir.

Mr. Rose. I think that's a real problem that we're all going to have to keep our eye on. I don't believe you or the members of this panel, or members that have testified, or members that are going to testify, want to see ag policy transferred from the House and Senate Ag Committees to the Office of the Special Trade Representative. We're going to have to be on our toes and maybe bring this not-so-veiled attempt out into the open just a little bit more. I thank you for bringing that out.

Is there any response or anything further you want to say about that?

Mr. Gamble. We certainly do not want that authority transferred.

Mr. Rose. Thank you.

Thank you, Mr. Chairman.

The Chairman. I thank the gentleman.

Mr. Huckaby.

Mr. Huckaby. Thank you, Mr. Chairman. I would like to welcome each of the panel members to Washington. We appreciate your testimony very much.

Mr. Heiden, I notice in your testimony on page 3 you talk about relating the target prices to the cost of production. Is this a change in the National Cotton Council's position on the 1985 farm bill?

Mr. Heiden. Mr. Huckaby, I believe that the council's position in regard to the 1985 Food Security Act was a recommendation that the cost of production would be used in establishment of the target price.

Mr. Huckaby. Would you explain briefly how you visualize it working, since you say let's relate it to the cost per acre rather than cost per pound?

Mr. HEIDEN. Mr. Huckaby, I believe the reasoning behind that is that the cost per pound varies dramatically from year to year, depending on weather conditions and so forth, where the cost on a per acre basis is relatively stable. That's primarily the reason.

Mr. HUCKABY. My question is: Today the target price is roughly 72 cents, the loan is 50 cents, and the target price is an arbitrary, political number, if I might use that expression, not related to anything. But it is related in pounds, 72 cents per pound. If we had a target price that was related to the cost of production per acre, how would we equate this? Are you going to use nationwide averages and then interpolate that to production per pound?

Mr. HEIDEN. Well, I think the increases that would follow inflation and so forth could be done on a percentage basis, as to what the cost of production is on a per acre basis currently, if that's what you're talking about, a baseline. Is that what you're referring to?

Mr. HUCKABY. Right.

I see also in your testimony you mention going to actual yields. You make a very good point, Mr. Chairman, that we should be aware of, and that is the fact that the ASCS offices in many parts of the country today are not collecting this data. At the same time we have a study going on to give us the potential to possibly go back in the new farm bill and use actual yields.

If I may turn briefly to the other three panel members who represent the sugar industry, a simple question: Where do we go now? As you are very well aware, the United States, as was pointed out in your testimony, has agreed to go along with the GATT ruling that says our Sugar Program is in violation of international law as far as fair trade. Clearly, in my opinion, we will have to change the program to comply with GATT. I don't believe we can pass legislation through this Congress that is in violation of GATT regulations. In none of your testimonies did you make suggestions of changes in the farm bill. You very eloquently stated the case of sugar and what the legislation should be. But what should we do? Would each of you answer that, if you have a position at this point in time?

Mr. NELSON. This thing has come upon us rather recently. We were under the impression that this would not be a problem originally, and this has been thrown on us in the last month or so. As far as I know, we don't have a definite solution worked out between us yet.

Mr. MCKEE. Congressman, I pretty much agree with what Jack said. This thing has come at us pretty quickly. We don't have much access to what's going on in these GATT talks. And even Members of Congress, I think your access is somewhat limited. These things are coming at us pretty fast and furious right now. We've still got to deal with the EC challenge to section 22 and maybe see how that comes out before we can begin to explore all the possibilities in great detail. There are many, many possibilities out there.

As I understand it, it's really not our farm bill that's in violation of GATT at this point. As I understand it, it's the mechanics of how we administer the farm bill. I would love to think at this point that we could change the mechanics somehow without changing the farm bill. That would be, obviously, what I would love to do.

I see you smiling and you think that's going to be very difficult. I'm probably inclined to agree with you. But technically, it is the mechanics that are in violation; the farm bill itself is not, as I understand.

Mr. HUCKABY. Mr. Anderson.

Mr. ANDERSON. I would have to agree with Mr. Nelson that this thing has happened suddenly. We're in the process of having our American sugar summer meetings in Minneapolis right now. In fact, I'm going up there as soon as I leave here. I know that Luther has some of these things that we're going to discuss. We're not oblivious to the problem and need to really stop and consider what we feel are some of the solutions to the thing.

As I stated, we are certainly willing and able to have some minds available who can work with your subcommittee and with the chairman and his committee to work out the solutions to make this thing work. It is difficult to think that we will lose a program that has worked so well, for the consumer, for industry, and the producer.

Mr. HUCKABY. Thank you. I feel we do have major problems confronting us, but I think they can be surmounted. I and the subcommittee and the full committee certainly look forward to working with you and your organizations in the coming months as we develop legislation for the 1990 farm bill.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

Mr. Stangeland.

Mr. STANGELAND. Thank you, Mr. Chairman. I, too, want to welcome this set of witnesses, and also the previous witnesses today. I, unfortunately, was in another committee hearing that demanded my attention and I couldn't come until this hour. But I want to welcome you here and follow up on what Mr. Huckaby said, particularly as it pertains to sugar.

I would hope that the sugar people would start to seriously think about what options we might be looking at in the privacy of your discussions. I met with both Mr. Crowder of the USDA, who is going to be one of the negotiators, I understand, with Australia, working out some kind of a solution to the problem, and also with Miss Hills.

Both talked tariff. The problem of that matter is that this committee can't authorize a tariff. The fact of the matter is, if we're real practical—and I told both of them this—when you talk tariff, you're just blowing smoke, because we have a very strong free trade committee in Ways and Means and hell will freeze over before they give us a 35 percent tariff like the Australians have. So we have to look at different options.

I told them that. I told them it was their responsibility, that if their words meant anything when they talk about maintaining a viable domestic industry, they had better reveal to us what options we have so that we're in compliance with GATT.

I think Miss Hills also stated to us that we had improperly implemented the headnote authority and that's why we're in violation. I asked her then, if we improperly implemented it, we, meaning the U.S. Government, I assume, then how do you properly implement it so that it's in compliance with GATT? If you improperly implement it and that's the problem, then you must have a way of properly implementing it. She didn't answer me. I hope she's looking at that.

I think we do have, as Mr. Huckaby said, a real problem facing us as we go to markup, and I think you cite the case for sugar extremely well. It's a very simple story and you cite it very factually. One of you talked about the $3 billion big lie. I repeated that story time and time again, and that's just exactly what it is, a $3 billion big lie. You give the candy manufacturers their sugar free and how much is the price of that candy bar going to drop? Not one penny. Any other processed product, the same thing.

I think we have to continue to tell that story, and you gentlemen tell it exceptionally well. There is a lot of people besides producers involved. There's a lot of jobs. But the consumers have a good deal going with the Sugar Program, and have had for years, without those wild fluctuations we experienced before in the Sugar Program, before the de la Garza amendment, as I recall, which was the forerunner of this current Sugar Program. So I would hope that you would get your heads together and work with us. We just have to come up with something.

I thank you Mr. Chairman.

The CHAIRMAN. I thank the gentleman.

Mr. Hatcher.

Mr. HATCHER. No questions.

The CHAIRMAN. Mr. Gamble had some very nice things to say about you.

Mr. HATCHER. I would like to thank you for that, Wilbur. [Laughter.]

The CHAIRMAN. Mr. Anderson.

Mr. ANDERSON. Mr. Chairman, Mr. Stangeland, I wonder if it is fair to ask the question as to whether you felt the panel that considered our violations, this GATT panel, whether we were dealt with fairly and whether it became a matter of interpretation by maybe some of our adversaries.

Mr. STANGELAND. Well, I would be happy to try to answer that, Mr. Anderson, except that I'm really not qualified to judge. I have questions about the panel, candidly and frankly, yes. We can't control that.

I think the main problem lies in the fact that our negotiators and those defending our position did not believe in their heart in our position. That was as big a problem as the panel. I guess I would have questions as to whether or not our quota program is not within the rules of GATT. Then maybe we have to admit to that, if that's the case. But those same people defending that program are sworn to uphold the laws of this Nation, and the Sugar Program is part of the law, and if the law is wrong, then they should come and sit down with us and tell us how do we make the law right.

Why should we, as a Nation, allow Australia, which had a closed-door policy for 75 years and built a viable industry, now all of a sudden they are the good guys, when they open the doors and slap a 35-percent tariff on? Why should we bow to the EC when they complain about our section 22 when they're the big violators, the big problem makers. We aren't the problem makers. At least we're not major in the playing field of problems in sugar. I think those people have an obligation to sit down with us and tell us what can we do to maintain a viable industry and work with us and with you.

They have pledged to me that they are willing to work with this committee and the industry. I hope they're good for their words and that we can maintain a viable domestic sugar industry. Without it, we're subject to the vagaries of the world market. People don't believe this, but I maintain that there's a potential for a sugar cartel out there that will knock the socks off our consumers if we ever lose our domestic industry that puts stability to that consuming public and to our producers.

I also raised the question—and you all know it very well. I've got farmers—and it's not here in Washington only, and it's not only among consumers. I've got farmers in the Seventh District of Minnesota who are adamantly upset about the Sugar Program, frankly, because they don't happen to have sugar beets. So you have enemies right among your own people. I tell them, look, don't tear the Sugar Program down; let's try and build yours up. I said, if you lose the Sugar Program, what are those good, efficient sugar beet growers in the Rio Grande Valley going to raise on that prime land? They're going to raise the same products you're raising that are now in surplus and cause you more problems.

What do the boys down in Florida raise in that area around Okeechobee? They're raising all the vegetables they can. If they don't raise cane, what are they going to raise? What do they do in Louisiana? About the same thing. What are they going to do in Hawaii? You're going to put a whole lot of land idle that is good for nothing else but producing sugarcane or sugar beets.

So I don't have an answer to the question. I hope I answered as well as I can because I'm not knowledgeable enough to——

Mr. HUCKABY. Would the gentleman yield?

Mr. STANGELAND. I would be happy to yield.

Mr. HUCKABY. I thank the gentleman.

I would like to respond, also. This past fall I visited Australia as a result of the petition. After that, the gentleman from Minnesota, as well as the chairman and myself, attended the GATT Rounds in Montreal as well as Geneva. In my opinion, the Australians found against the United States instead of the Europeans because they felt the United States wanted some agreements, wanted some movements, in the whole area of agriculture, that they would be willing to go along with this petition because GATT works by consensus and they knew the Europeans wouldn't go along. They also recognized that the Europeans are the clear culprits in world sugar. So they took this action. They have no access to European markets and they do have limited access to our markets. So this is what happened to us. But the reality is that it is happening and we're going to have to respond to it.

Perhaps the easiest way might be simply to limit our production. I understand this is one of the alternatives. We have asked Ambassador Hills to provide us specifics in writing of remedies that are available to us. Of course, we will be working with you in developing legislation.

I thank the gentleman for yielding.

The CHAIRMAN. I thank the gentleman.

We thank the panel. We appreciate you being here and your contribution will be of invaluable help to us.

On the next panel we have Mr. Carl King, American Corn Growers Association; Mr. John Bollingberg, American Oat Association; Richard Perry, National Grain Sorghum Producers Association; Wayne Boutwell, National Council of Farmer Cooperatives; and Carroll Brunthaver, National Grain Trade Council. Would the witnesses kindly come to the witness table. We will be happy to hear from you as soon as we get some order and some of our friends depart.

Mr. King, we welcome you and would be happy to hear from you at this time.

STATEMENT OF CARL L. KING, CHAIRMAN, AMERICAN CORN GROWERS ASSOCIATION AND TEXAS CORN GROWERS ASSOCIATION

Mr. KING. Thank you, Mr. Chairman. I am Carl King. I also will address all the members of the committee and tell you it is a pleasure for me to address you today on behalf of America's farming families that grow corn. I am a farmer from Dimmitt, Texas and I am chairman of the Texas Corn Growers Association and chairman of the American Corn Growers Association, headquartered in Washington, DC.

Speaking of the American Corn Growers Association, I am pleased to report to you today that after only 14 months of existence, the American Corn Growers Association represents members now in 27 States, including members in every congressional district represented on this committee. We have State coordinators or representatives in virtually every State in the Corn Belt.

The American Corn Growers Foundation, a purely educational effort, has received State check-off money from South Dakota and Texas, and have similar efforts underway in other States. We have conducted membership drives in a number of Corn Belt States and have a national membership drive scheduled to commence in September.

We are unique from any other national corn organization because we represent the corn grower only, and our policies are totally constructed and controlled by the producer. We are here to stay, and we intend to work very closely with each of you in the months and years ahead to fashion farm legislation that benefits the agricultural producers in this country.

I would like to speak a little bit to GATT and export policy. We have kicked that around, as you know, in nearly every session this morning. I want you to know first, Mr. Chairman, how deeply we American corn growers appreciate the efforts that you and the members of the committee made in Geneva in April at the GATT conference. You made a tremendous difference by your presence. Our representative in Geneva, John Ford, has told us how effectively you fought both the Europeans and the United States administration for the principle that you, the Congress, would write United States agricultural policy. We do not want the 1990 farm bill buried in some 2,000 page GATT document to be voted only up or down by Congress. Every farmer in America benefited by your efforts. I extend my appreciation to all of you who were there: Mr. Chairman, Mr. Stangeland, Mr. Stenholm, Mr. Huckaby, Mr. Emerson, Mr. Bob Smith, and Mr. Moody. We ask you to please go to those GATT meetings every time they meet because we feel it is very important. I think Bill O'Conner from Mr. Madigan's staff was also over there.

As to export policy, after 8 years of a lot of rhetoric, today even the die-hard free traders in agriculture are changing their tune. The concept of comparative advantage is dead. Our feed grains are being exported at cheap prices and, at the same time, increasing production at home doesn't make sense. Just as we must have an industrial policy in this Nation—and last year's trade bill wisely set us on that path—we must also have a fair agricultural policy.

The Export Enhancement Program must be revamped to change its emphasis to helping gain profitability for the producer. It makes no sense to use taxpayer money to subsidize export of an American commodity at a price that is less than the cost of producing that commodity. In corn especially, our emphasis should be on new markets at home, like corn sweetener and ethanol, and programs that encourage value enhancement for our exports abroad. I had even thought about mentioning trade export enhancement and leave part of it for some domestic rural development programs, such as I'm speaking about. Trade and export should only be defined as good for American agriculture if it is defined as good for the American farmer—the producer.

Now, we just talked about the Sugar Act so I will just touch on that briefly as far as our views on it. What the administration is attempting to do to sugar through GATT is what I'm sure they would like to do to every other commodity. Every corn farmer in America has a stake in the Sugar Act. We state our strong support for the Sugar Program as it exists in the 1985 farm bill. This program has provided a source of stable income for our producers and a reliable and economical supply for the consumers.

The U.S. Sugar Program should not be sacrificed at the GATT negotiating table without receiving equitable adjustments from other sugar-producing nations. Our concern is that our producers will be forced to unilaterally disarm. We don't want to be offered as a bargaining chip for a nonagricultural concession.

U.S. sugar policy, as well as all agricultural policy, should be dictated by Congress and the Agriculture Committee, not by GATT.

We oppose the triple-base plan. Mr. Stenholm asked about that this morning. Charlie and I are friends and he probably won't like to hear this, Mr. Chairman, but we don't go along with that triple-base plan, and we oppose decoupling. We ask you to carefully analyze who it is that supports these concepts and why they support them. They are not the producers who reside in each of your districts.

We do favor planting flexibility and we want a program that allows farmers to respond as best possible to market trends. However, we are painfully aware that much of your decisionmaking is, and has to be, budget driven. Our approach to this budget concern is not to spend $10 billion a year to continue low prices to producers, but indeed, to reduce Federal outlays by managing supply so that prices don't fall below the cost of production. Even many in the EEC leadership support raising our basic loan rates. We urge your focus on higher loan rates. An effective Farm Program is one that establishes fair loan rates and then effectively matches supply with demand, not only by restraining overproduction, but also by significantly increasing usage.

Speaking on the environment, we are pleased with the administration's initial legislative proposal on clean air and have worked with the administration on this effort. When passed by Congress, we see tremendous potential for a vastly expanded market for American ethanol and other alternative fuels. It is, indeed, refreshing, after all these years, to see this country's largest ethanol producer finally calling for an expansion of this industry. The largest single, untapped market in the world for corn is for ethanol and ETBE fuels as a blend with gasoline.

Corn growers throughout America have much at stake in a genuine, national, expanded and viable ethanol industry. The American Corn Growers Association calls for extension and expansion of ethanol tax incentives at both the Federal and State levels, and the American Corn Growers Association was an early and strong supporter of the rapid and full commercialization of ETBE—ethyl tertiary butyl ether.

As a critical part of balancing our supply with our demand, increasing the producer price and lowering budget outlays, we strongly support expansion and redefinition of the Conservation Reserve Program. Our environment, our profitability, and the quality of our farmland for future generations can all be better served if we are far more attentive to how our land is managed.

We need to work with environmentalists by monitoring the productivity of the balance of the cropland in the United States for the use of future generations by the adoption of the soil restoration movement. Our Farm Program must be responsive to the needs of domestic commodity users such as livestock, poultry feeders, and ethanol producers.

Our policy position adopted by the full board of ASGA, is enclosed for your review.

I would like to say further that research and development should be continued for new uses of corn, such as corn sweeteners, biodegradable bags, protein isolates, et cetera. We feel like our program will save the Government billions of dollars through supply management, coupled with a loan level that covers the cost of production and at least a 10-percent profit.

The corn producers of the American Corn Growers Association appreciates this opportunity to share these views with you, Mr. Chairman, and thank you very much.

[The prepared statement of Mr. King appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you very much, Mr. King.

Mr. Bollingberg, American Oat Association.

STATEMENT OF JOHN BOLLINGBERG, MEMBER, BOARD OF DIRECTORS, AMERICAN OAT ASSOCIATION

Mr. BOLLINGBERG. Mr. Chairman, members of the committee, my name is John Bollingberg. I want to thank you for this opportunity to appear before you this afternoon to discuss the American Oat Association's recommendations for the 1990 farm bill.

I am an oat producer from Bremen, North Dakota, and a member of the board of directors of the American Oat Association. I produce oats, along with other small grains, edible beans, and livestock on my farm.

The American Oat Association was formed last November to represent the interests of the entire domestic oat industry—from producers to processors. We represent oat farmers and seed companies from all the major oat-producing States, including North Dakota, South Dakota, Minnesota, Iowa, Wisconsin, and Nebraska. We also represent several major oat millers and processors, such as ConAgra, General Mills, and Quaker Oats.

First, in this time when "bashing" Congress seems to be so popular, I would like to thank you for your dedicated effort and plain hard work in serving me as a constituent among many. Then I would recognize what I, as a producer, like about the 1985 farm bill. The effort to recognize signals from the marketplace, to bring U.S. production into a competitive position in world markets, and to try to reduce budgetary costs, are part of the direction I appreciate. Along with the goal of recognizing signals from the marketplace comes the need to adjust to those signals. With numbers available to us today, we have a very apparent need to fine-tune the oat portion of the farm bill.

The impact of the explosion in demand for oat bran is directly reflected in the dramatic increase of imports. Until the past year, the U.S imported 60 million bushels or over 25 percent of the domestic production. Increasingly, health conscious American consumers offer assurance that this demand is sound. So the facts of the marketplace are needs beyond domestic production.

As I and many producers like me make sitting decisions, the assurance that the Farm Program offers is certainly part of that decision. The fact is that with the present implementation of the Farm Program, that assurance is better with my alternative choices. We should keep in mind that many indirect benefits of increasing oat production are, for example, by satisfying domestic needs with increased oat acres, we can reduce the seeding of other crops, taking the pressure off of those markets. Also, the benefits of oat production will be in rural America, where the multiplier makes that income of value far beyond the agricultural sector. Any reduction of imports will help to improve our balance of trade, just to mention a few.

The American Oat Association sees three primary reasons for the oat shortage. First, an oat target price that is too low relative to other crops—and that is the key, the relationship to other crops. Second, an inflexible base acreage program that causes farmers to grow more highly supported commodities year after year. Third, the Conservation Reserve Program, which has tended to pull in a disproportionate amount oat acreage.

These programs have prevented the American farmer from responding to the oats market that is telling them to grow more oats.

This isn't a new problem to you. For at least the last 3 years, this committee has attempted to offer some additional assistance to oat producers through the lifting of cross-compliance on oats, establishing a maximum 5 percent oat acreage reduction program and, most importantly, by providing additional oats planting flexibility in last year's drought assistance package. All of these have been helpful and most appreciated. But we need to do more, especially in terms of cross-commodity effects. The comprehensive nature of the 1990 farm bill will allow us to do just that.

In developing the commodity provisions of the 1990 farm bill, the American Oat Association recommends two policy changes—and this is in order of what we perceive their importance to be.

First, realign target prices to remove the incentive to produce some crops over others, such as oats. One way to achieve this would be to eliminate the current requirements that oats, barley, and sorghum target prices be set in relation to the corn target price. The current domestic commodity supplies definitely point out the uniqueness of oats and the need to address oats separately. Another option could be to raise the oats target price to cover at least cash expenses.

The second recommended change is to increase planting flexibility to allow farmers to respond to market conditions. The American Oat Association strongly supports the concept of flexible planting. However, for this to actually result in increased oat acres, the target price issue remains paramount.

The American Oat Association believes that the triple-base proposal and the flexible oats planting provision in effect this year would be effective. Base substitution on normal crop acres will be effective only if the target price system is revised to provide a level playing field for all program commodities.

These two policy changes would help the United States return to self-sufficiency in oats. Farmers want to grow oats but don't need farm program concerns to discourage them from doing so. Oat millers and processors want the high quality of U.S. oats to meet rising consumer demand. For over 50 years, private industry has played a leading role in funding oats research in this country. This has resulted in oats production that is unequaled in the world in terms of quality.

Last, the American consumers are demanding more oat-based products as they come to realize their nutritional and health benefits. Our farm programs must be designed and implemented to allow farmers the latitude to respond to the market.

Thank you again, Mr. Chairman, and members of the committee.

[The prepared statement of Mr. Bollingberg appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you, Mr. Bollingberg.

Mr. Perry.

STATEMENT OF RICHARD H. PERRY, VICE PRESIDENT FOR LEGISLATION, NATIONAL GRAIN SORGHUM PRODUCERS ASSOCIATION, ACCOMPANIED BY ELBERT HARP, EXECUTIVE DIRECTOR

Mr. PERRY. Thank you, Mr. Chairman, and members of the committee. The National Grain Sorghum Producers Association appreciates the opportunity to present its views on the 1990 farm bill and future agricultural programs.

My name is Richard Perry. I am a grain sorghum producer from Nueces County, Texas. I am currently serving as vice president for legislation for NGSPA. With me today is Mr. Elbert Harp, the executive director of NGSPA, who is also available to answer questions that you might have concerning our statement today.

You will note that instead of coming before you with a request to establish a rigid or mandatory supply management program, our recommendations are to set policy guidelines that the Secretary of Agriculture will be required to implement through the various supply management and export enhancement programs that are available to him. We propose that the Secretary of Agriculture be required to hold feed grain carryover stocks at a manageable level through an individual program or a combination of programs, and operate within reasonable budgetary restraints.

NGSPA commends the chairman for the stand he has taken in stating that future U.S. farm programs will not be written in Geneva. Our association has been very concerned about several provisions that have been promoted as the "U.S. position" for the current GATT negotiations. A few biased negotiators should not be allowed to trade of U.S. agricultural programs and interests.

The main points of our statement are as follows. The entire statement we would like introduced into the record, but this is a condensed version.

NGSPA supports the continuation of provisions of the Food Security Act of 1985 and any additional legislation necessary that will maintain farm income target prices at no less than the higher of the 1989 levels, or the 3-year U.S. average USDA-ERS full cost of production per commodity, including land costs and 15 percent return to management.

Cut the cost of U.S. farm programs by allowing domestic market prices to more accurately reflect the cost of feed grain production.

Allow producers the flexibility of exchanging their commodity bases up to 20 percent per year of their total farm base, provided it does not increase the total farm base acres.

Require the Secretary of Agriculture to manage production programs to assure the production of all commodities needed to fill domestic and export demand, but not allow reserve or carryover stocks of more than 16 percent of a normal year's use of U.S. feed grains. Sixteen percent, of course, is about a 2-month supply.

Extend the Export Enhancement Program to include all U.S. feed grains and all purchasing countries to assure U.S. export competitiveness, to maintain and expand the U.S. market share, and to annually remove all surplus feed stocks above 16 percent of a normal year's use. Emphasis on the use of EEP should be given to the grain that has the largest carryover in percentage of a year's normal usage.

Allow producers to retain their total base acres without being required to plant them to any program crops.

Incorporate the following Farm Program concepts: Eliminate limitation of Farm Program payments; continue the farmer-owned reserve, with storage payments for farmers at the same level as for commercial storage; make Federal crop insurance an option, but not a requirement, of Farm Program participation, and treat farm units which are separated geographically or as irrigated and nonirrigated as separate entities for FCIC indemnities.

Maintain an aggressive export marketing program through an expanded FAS budget designed to increase export sales of U.S. agricultural products; complete the CRP signup of no less than 40 million acres; protect and assure water quality standards supported by scientific studies, taking into account differences that are unique to each region, and maintaining local control; establish environmental protection programs which are based on unbiased, scientific studies and which have a fair regard for the importance of agriculture and an honest assessment of the needs of agriculture.

Give research funding priority to projects aimed at immediate needs, such as cost-efficient production and low input sustainable agriculture; new uses and increased utilization of commodities now in production; establishment of scientifically proven acceptable levels of mycotoxins and other harmful substances associated with agricultural products.

Establish consumer education programs to be conducted by USDA to educate all consumers to the comparatively low cost of food and to the importance of agriculture to the American way of life.

Mr. Chairman, I have two charts—we like charts, too—that I wanted to just bring out. They graphically show facts that will help combat some myths that are currently being talked about.

No. 1, the statement is often made that market clearing prices will increase the demand for feed grains. However, the fact is that lower prices have very little effect on total feed grain consumption. World coarse grain prices are set by the demand for the grain in relation to the current available supplies. The inelasticity of feed grain demand is very evident in chart A. There is no increase in use as prices decline. We have a 10-year chart to illustrate this point.

No. 2, another false and misleading statement is that high U.S. feed grain prices encourage increases in world planting. The facts, however, show that there is very little change in world planting in response to prices. Chart B shows that the trend in planting is slightly downward. Yields, on the other hand, are trending slightly upward. That's on chart B.

In conclusion, Mr. Chairman, it is our pleasure to present our views to the Committee on Agriculture. NGSPA looks forward to working with you in the development of the 1990 farm bill. Thank you for this opportunity.

[The prepared statement of Mr. Perry appears at the conclusion of the hearing.]

The **Chairman**. Thank you very much, Mr. Perry. If your charts can be reproduced for inclusion in the record, they will be.

Mr. **Perry**. Thank you.

The CHAIRMAN. Mr. Boutwell.

STATEMENT OF WAYNE A. BOUTWELL, PRESIDENT, NATIONAL COUNCIL OF FARMER COOPERATIVES

Mr. BOUTWELL. Thank you, Mr. Chairman. My name is Wayne Boutwell, president of the National Council of Farmer Cooperatives. I will summarize my statement.

We have a very simple message today, Mr. Chairman, and that is that the 1985 farm bill has worked and worked very well to restore the economic viability to the agricultural sector. In our prepared testimony we have some charts that illustrates this. The fact is that farm income is up, asset values have rebounded, debt is down, export values are up, and our share of the world market has improved remarkably since the 1985 farm bill was enacted. This has all been accomplished, Mr. Chairman, at a cost to the Government of some $7 billion less than was estimated at the time the bill was signed into law in early 1986.

I would also like to call your attention to chart 8, which is the last chart in our prepared testimony. This shows that even as some people have complained about the cost of the Farm Program, that the $26 billion cost of the program in 1986 was only 2.6 percent of the Federal budget, which was slightly less than 2.7 percent in 1963. The cost of the program this year has declined to 1.2 percent of the budget, below the average of 1.4 percent for the last 30 years. So, Mr. Chairman, I would suggest that not only has the 1985 farm bill helped to restore economic viability to the farm sector, the cost to the taxpayers of this country has come down as well.

If you look at the cost of food to the consumers, you will see that we have continued to decline in terms of the percent of income spent on food, with only 12 percent of our disposable income in this country spent on food, some 4 percent lower than the next closest country in terms of the percent of income spent on food.

So we do not have any recommended changes to make in the structure of the bill going into the 1990 legislation. However, we do believe there is some need to provide flexibility for farmers to better respond to market signals, particularly with regard to the soybean/corn complex. This results in the fact that the program incentives in some cases in the past have said plant corn when, in fact, the market was saying plant soybeans. This, to some extent, was addressed in the drought bill, with the so-called 10–25 provision, with its trigger mechanism to protect a substantial reduction in soybean prices, and also the authority in the 1985 farm bill that gives authority for a 10 percent swing in bases to other base acreages.

However, in any flexibility that is included, we would hope, particularly in the case of soybeans, that you would include a mechanism whereby any increase in production would allow it to be price competitive in the marketplace while maintaining support for farm incomes; such as perhaps a marketing loan program for soybeans.

We do realize, Mr. Chairman, that once you receive a budget mark for the 1990 farm bill, perhaps other options will have to be looked at to meet the budget mark. We are evaluating some of those options now and will be prepared to work with the committee whenever that mark is received.

Mr. Chairman, this completes our remarks. We would be glad to respond to any questions.

[The prepared statement of Mr. Boutwell appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you very much, Mr. Boutwell.

I wonder if we might not go through, some of our guests don't have the availability of looking, at your charts. I wonder if I might hold these up and you briefly explain it to us. Like food expenditures, what does that chart show?

Mr. BOUTWELL. Mr. Chairman, the food expenditures chart shows that in 1960, roughly 16 percent of our disposable income was spent on food. This has continued to decline over time, reaching some 12 percent of our disposable income spent on food this year.

The CHAIRMAN. That's per family?

Mr. BOUTWELL. This is an aggregate average for the U.S. population, Mr. Chairman.

The CHAIRMAN. Then you have U.S. food expenditures and a pie chart.

Mr. BOUTWELL. This chart, Mr. Chairman, shows that in 1950, the farm value of the consumer food dollar was some 41 percent. Everything from the farm value to the consumer is considered the marketing bill and was 59 percent. The farm value had declined to 33 percent of the food dollar in 1960, down to 32 percent in 1970, and in 1987, the farm value of the food dollar was only 25 percent. Of the food dollar spent by consumers, only 25 percent of it was farm value of the food.

The CHAIRMAN. Then you have net farm income. That seems to be a very interesting one.

Mr. BOUTWELL. Mr. Chairman, net farm income shows, from the peak in the early 1970's, with a very high price, a fairly continuous erosion in net farm income during the next decade, to a low water mark in 1983. With the implementation of the 1985 farm bill, Mr. Chairman, we have seen not only the rebound of our competitiveness, but a substantial rebound in farm income up to some $50 billion in 1989.

The CHAIRMAN. So since 1983, until 1989, it has jumped.

Mr. BOUTWELL. Roughly $15 billion to $50 billion. That's a fairly remarkable recovery, Mr. Chairman.

The CHAIRMAN. And then you have another chart here, value of U.S. farm exports and agriculture trade balance.

Mr. BOUTWELL. This chart, Mr. Chairman, shows that in 1981, macrovariables, the value of the dollar, high loan rates, and so forth, priced us out of the international marketplace. We had reached a high of about $44 billion in terms of export value. Once we were priced out of the international marketplace, that figure had plummeted down below $30 billion. That was the environment we were facing, Mr. Chairman, when this committee responded in 1985 to implement provisions to allow us to be price competitive in the international marketplace.

Once we got competitive in the marketplace, we have seen these numbers rebound and are now back up nearing $40 billion.

The CHAIRMAN. We'll skip the next one because it's really not a chart and go to farm assets and debt.

Mr. BOUTWELL. Mr. Chairman, this is the asset value. It's a remarkable chart and shows a lot of ills that the agricultural economy went through. You will recall this committee worked with the Farm Credit System. This chart depicts the symptomatic problems that the Farm Credit System was going through, with a substantial reduction in asset values once the farm economy started going into a position of not being price competitive. In fact, it raised questions as to whether or not the asset values could be supported by the price received by the commodities if, in fact, those products moved into the market.

You see there that asset values went from a little over $1 trillion down to around $750 billion, which is roughly a $250 billion decline. Once the 1985 farm bill was enacted, we moved some of the inventories, prices began to rebound, and we've also seen a rebound of asset values to agriculture. It's starting to turn around.

The CHAIRMAN. Then you have farm financial conditions.

Mr. BOUTWELL. The top line, Mr. Chairman, is the income-to-debt ratio. The dotted line is the debt-to-asset ratio. This was the chart that forewarned the problems that agriculture was to face in the 1980's, because clearly in the mid-1970's we were beginning to erode our ability to service our debt in agriculture. You can see the decline in that ratio, reaching bottom in about the early 1980's. You will see that once the 1985 farm bill was enacted, we stimulated some cash-flow in terms of Government support coming into agriculture, but we also were finding a rebound in the market prices while we began to move inventories. You will see the remarkable recovery in the income-to-debt ratio going up, with the debt-to-asset ratio coming down as assets responded and started to improve, along with a decline in the debt load for agriculture.

The CHAIRMAN. Then the final one is CCC outlays as percent of Federal outlays.

Mr. BOUTWELL. That's correct, Mr. Chairman. We decided to take a look at the history of the CCC outlays as a percent of the Federal budget, going back to 1961. You will see the actual as a percent of the Federal outlays, we hit a high water mark in 1963. It declined and, in fact, the low numbers below that dotted line, the 1.4 percent average, was in the early 1970's, when we had some fairly substantial increases in agricultural prices in this country, and program costs went down reflecting that.

If you review the costs as a percent of the budget in the period of the 1980's through 1990, you will see that, in fact, the $26 billion is the last spike up there. It is still below the percent in 1963. But you will see that costs, as a percent of the budget, have come down dramatically, with the recovery of farm prices once the inventories have been moved under the 1985 farm bill. Now they are down and are projected next year to be only 1 percent of the budget, which is well below the historical average.

The CHAIRMAN. And what is the source of these charts?

Mr. BOUTWELL. These are all USDA data sources with charts provided by NCFC's agricultural chartroom.

The CHAIRMAN. USDA sources.

Thank you very much. It was very interesting. You can graphically show where we have been, what has happened, where we are, and basically where we're going.

I guess I should give Mr. Perry equal time. Your charts are more figures rather than graphs. You have one that says chart A, U.S. prices relative to world production and use of coarse grains.

What does that tell us?

Mr. PERRY. Well, it basically says that the use of grains doesn't change very much with the price. It says that as the price goes up and then back down again, and then back up, world production and world use stayed relatively stable through the past 10 years.

The CHAIRMAN. Then you have another one that says U.S. corn prices and world planting in million hectares.

Mr. PERRY. This illustrates that since 1978—that's as far back as our figures go—that as the price increased and then went down and went up again in 1983, and then came back down, world planting did not change all that much. It did not respond to the cheaper price, in other words, or the higher price. It just stayed about the same.

The CHAIRMAN. Very good. I thank both of you very much. This is another opportunity to show our chart. The red is $1 trillion plus budget. Everything that we have done for American agriculture is done with this tiny little line at the bottom. That's the bottom line that you can't even see. So all the ones that complain and point the finger—and these are USDA figures also that we have used.

I'm sorry we cut into your time, Mr. Brunthaver, but I will make it up to you. Mr. Brunthaver, the National Grain Trade Council, we would be happy to hear from you at this time.

STATEMENT OF CARROLL BRUNTHAVER, PRESIDENT, SPARKS COMMODITIES, INC., ON BEHALF OF THE NATIONAL GRAIN TRADE COUNCIL

Mr. BRUNTHAVER. Thank you, Mr. Chairman, members of the committee. It is a pleasure to have the opportunity to appear before you this afternoon to share with you the National Grain Trade Council's assessment of the 1985 Food Security Act and its recommendations for the 1990 farm bill.

I am Carroll Brunthaver with Sparks Commodities, Memphis, Tennessee. I am a member of the executive committee of the National Grain Trade Council. You have our statement, so let me just very briefly summarize a few of the points we would like to make.

The 1985 act has worked remarkably well, and I compliment Mr. Boutwell on his charts. I think that adequately describes that the world grain demand has increased dramatically, the U.S. shipments have increased, prices have gone up, net farm income has gone up. The act has worked remarkably well.

There are two problems, as we see it, or improvements, perhaps, that should be addressed by this committee in thinking about the 1990 farm bill. The first one is the rigidity. The United States, we believe, has lost approximately 300 million bushels of soybean demand to Brazil, and I do not believe that the United States can regain this lost market. Brazil stands ready to add 20 to 30 million acres of production to soybeans at our expense, if we're not careful.

A partial reason, and I think an important reason, for this loss is that U.S. farmers were encouraged to produce corn and wheat for the Government, and idle acres for the Government, rather than plant soybeans for the marketplace. We would hope that Congress would consider a normal crop acreage program whereby the various program bases on the individual farms and certain other crop acreages could be combined into a farm base. Farmers would still get their deficiency payments the same as now, but the farmer would then have the opportunity to decide on his individual farm what is the best crop or crops for him to grow, and to become more efficient by being able to select those crops guided by the market signals.

The second problem is the ARP. Wheat is a good example. Wheat usage in the United States—and Mr. Boutwell didn't show that specifically—but wheat usage in the United States has grown dramatically. We used 2.7 billion 2 years ago, 2.4 billion last year. Stocks are very low. But now we see a crop, I'm afraid, with the damage in the spring wheat heat last week, we see a wheat crop as low as a 1.850 billion to a 1.950 billion. Stocks are low. There is no way we can use 2.4 or 2.7 billion wheat. We're going to force ourselves to reduce the usage of wheat because the idling of too much land has put us in a position where we're going to be forced to cut back.

Loan, levels, we would urge the committee to stay with the formula that's in the bill.

The reserves, I think there is a need to address the inconsistency of lowering loans to get competitive on the one side, and then having high released levels on our reserve stocks to make us uncompetitive on the other side. There's an inconsistency there that needs to be looked at.

We have remedied this in the past couple of years by using generic certificates to get at these stocks to benefit the farmer, but the authority for the use of generic certificates is going to be reduced dramatically and this can no longer be used as a means of remedying this inconsistency.

Thank you very much.

[The prepared statement of Mr. Brunthaver appears at the conclusion of the hearing.]

The **Chairman**. Thank you very much, sir.

Mr. Sarpalius.

Mr. **Sarpalius**. Thank you, Mr. Chairman.

Mr. King, in your statement you refer to your encouragement from the administration's proposal on the Clean Air Act, what impact that might have on ethanol production. What do you think this committee could do in a farm bill, or what could we do to encourage the expansion of ethanol production?

Mr. **King**. I think that's a good question. I appreciate you asking it. Of course, we are very high on ethanol because it's another use for corn.

As you know, Mr. Sarpalius, you have been in the State legislature and we have sponsored legislation to try to get a tax deletion, if you please. This time we went to the Commerce Department, rural development, to try to get ethanol put in different feed lots, and feed the wet distillers grain as well as the ethanol, which would have been a real going thing for west Texas, for example, and all over the country, for that matter. Of course, we lost that one.

But, under the Clean Air Act, once it's enacted and the States are mandated, I don't think they're going to have any choice. So I would say the more teeth you could put into it in Washington, to mandate to these States to clean up their act, that would help it immensely, and go ahead and encourage them to give a State tax deletion, because you're already getting 60 cents a gallon Federal. Unfortunately, the Congress has helped us a lot more than the States have. So that would be my advice.

I would like to add, not in relation to your question, Mr. Chairman, but I guess I'm living in a dream world. I've been hearing how good this 1985 farm bill was. Maybe I had better go back and see my auditor and ask him if he wasn't wrong, if I didn't lose that million and a half since this thing has been in effect.

One, I would like to emphasize that 25 percent of our exports is exported at less than the cost of production. Two, the basis for pricing is also the basis for pricing 75 percent of the domestic price. And three, the value of exports has fallen. Now, I don't want to get on the outs with the co-op friends down here, but I don't agree with what has been said because I've lost this personally. I guess I went to sleep. Maybe I'm in a different world. But it isn't just me. I'm not saying it hasn't worked for some. It has improved. But it certainly hasn't improved enough to take up the slack on what we lost in the last 8 years, I'll guarantee it.

That's all I've got to say.

Mr. SARPALIUS. I might just add that I really foresee the potential for ethanol under the President's proposals as a tremendous opportunity for agricultural producers in this country, if that program becomes a reality. It is something that I hope this committee will look at very favorably.

Mr. KING. I appreciate your asking, Mr. Sarpalius, because we think this is very, very important. Of course, our counterpart, the National Corn Growers, we're for the same thing on ethanol as they are, basically. We would like to see it expanded. Like I said in my statement, we've had some people that make ethanol that always haven't wanted to expand the market, but evidently they're wanting to open it up.

Under the President's new announcement of the Clean Air Act, if he stays with it—and I hope he does—we can mix the ETBE, which is ether, with the ethanol, and 10-percent blend with gas, we can clean up this environment pretty quickly. This is what we're after. We would encourage you to look at every aspect of putting the pressure on these States to do something. I'm talking about in the way of tax deletions. They could do that through the rural development fund.

As a matter of fact, the bill that you yourself passed a few years ago has already built up a pretty good reserve. It wouldn't cost our State anything for a long time if they would use up that reserve and use an incentive to put in these ethanol plants. That would be paying the producer of ethanol an extra amount of cents per gallon, along with the Federal tax. So the thing this committee could do would be to encourage the States to help us all they can, as well as the Federal Government.

Mr. **Sarpalius**. Thank you.

The **Chairman**. Mr. Olin, any questions?

Mr. **Olin**. No questions.

The **Chairman**. I thank the panel. We appreciate your being here.

We have a vote on the floor. Let me endeavor to find out if it's one vote or if it is a combination of votes. We might declare a recess now to allow us to vote and then come back. This way we will have a seventh inning stretch here.

I think probably the best course to take at this point is to recess and proceed to vote, and then come back as promptly as possible. The committee will stand in recess, subject to the call of the Chair.

[Recess taken.]

The **Chairman**. The committee will be in order.

I understand that Mr. Camerlo has a plane to catch. If the other two witnesses don't mind, we will allow him to go first.

We have on this panel Mr. Dan Koons, National Cattlemen's Association; Mr. Tom Camerlo, National Milk Producers Federation; and Mr. Don Gingerich, National Pork Producers Council.

Mr. Camerlo, we would be happy to hear from you at this time, sir.

STATEMENT OF JAMES P. (TOM) CAMERLO, PRESIDENT, NATIONAL MILK PRODUCERS FEDERATION

Mr. **Camerlo**. Thank you, Mr. Chairman.

I am a dairy farmer and president of the National Milk Producers Federation. I am also president of the Western Dairymen Cooperative, a dairy cooperative marketing association that markets milk in Colorado, Idaho, Utah, and Wyoming.

I really appreciate this opportunity to provide the committee with the views and concerns of our members on several important agricultural policy issues which you will address in the coming months as the debate unfolds on the 1990 farm bill. As you begin to formulate positions on the future direction of the Nation's farm policy, this hearing is useful in assessing the impact of past policies and in identifying the issues which must be dealt with in the next omnibus farm bill.

To sensibly address the dairy policy options for the future, it is vitally important that we all understand the industry's current conditions and the potential problems which Federal policy can adequately address.

I am pleased to report that the dairy industry enters the farm bill debate in a vastly different position than it was at this point in the formulation of the 1985 farm bill. Gone are the huge surpluses of dairy products purchased under the Dairy Price Support Program. Gone also is the $2 billion-plus price tag of the Dairy Program.

In fact, U.S. milk production and consumption are in such close balance that very little cheese and no nonfat dry milk—two of the three products purchased under the Dairy Program—have been removed from the market by USDA this year. Dairy Program costs this year are expected to total about $670 million. That's a far cry from the $2.1 billion cost of the dairy purchases in fiscal year 1985.

I would like members to take a look at the graphs attached to my statement. These tables provide an excellent picture of what has happened to the Dairy Program portion of the Commodity Credit Corporation budget during the last few years.

As budget-cutters continue their assault on agricultural programs, it is critically important that everyone involved in the Nation's farm policy debate, from members of this committee to those of us working with you on these issues, remember that farm programs have suffered an inordinate amount of the burden of deficit reduction. Fairness, equity, and the need for a sound national agricultural policy require that the 1990 farm bill not be solely budget-driven.

Our goal for the 1990 farm bill is to establish a Dairy Program which enables the industry to maintain a supply-demand balance, thereby fostering the market stability which is the cornerstone of the Dairy Price Support Program.

This examination is continuing with the National Milk Producers Federation as we finalize our policy recommendations. Next week, our 135 member board of directors will meet here in Washington to continue our efforts in developing the federation's policy position for the farm bill. Many of you will be meeting with our board members in individual meetings or at our congressional reception next Tuesday night. During the board meeting, our members will be discussing farm bill recommendations which have been developed by a task force we appointed to examine alternative policies.

While it would be premature to describe the task force's recommendations at this time, I can say that the group recommends building on the report of the National Commission on Dairy Policy, the body which was established by this committee in the 1985 farm bill to make recommendations on future national dairy policy.

I was fortunate to be a member of the National Commission. I want to tell you it was a privilege and an honor to work with 17 other dairy farmers from throughout this country in addressing some of the many challenges facing our industry.

The Dairy Policy Commission agreed that U.S. agricultural and dairy policy should foster an economic environment in which milk producers have the opportunity to receive a satisfactory return for their labor and investment. An environment, in other words, that makes profitability possible, but not guaranteed, for the Nation's milk producers.

The Commission clearly stated its belief that market forces, together with adjustments in the Government support price, should be used to balance supply and demand for milk and dairy products. The Commission recommended the use of production controls on a standby basis, to be used in lieu of major price reductions that would otherwise be needed to balance supply and demand.

The Commission's recommendations on milk price support policy are very similar to the federation's existing policy recommendations. NMPF supports a Federal Dairy Program which will stabilize prices, but only to the degree that in the longrun market prices are allowed to adjust the resources in milk production to the demand for milk and dairy products. Federation policy also supports standby supply management authority for use when substantial adjustments in supplies are necessary.

Looking at the current farm law provisions, we are concerned that the pricing standard which has governed the well-being of dairy farmers since the 1985 farm bill doesn't provide the market stability that the Diary Program is intended to ensure.

The basic problem is the inherent arbitrariness of using a set of politically-determined standards to judge the industry's supply-demand balance. The dairy industry in the United States has grown considerably since the 5 billion pound standard was first incorporated into law in 1983. The rigid 5 billion pound standard is a smaller percentage of total production and consumption each year.

There is no guarantee that this level of Government purchases is adequate for the purpose of price stabilization or for providing an adequate quantity of dairy products for food assistance programs deemed to be in the public interest. This latter concern has been clearly demonstrated during the last 2 years. Due to the lack of cheese and nonfat dry milk stocks, USDA has cut back drastically on dairy product donations under TEFAP and on bonus dairy commodities for schools under the School Lunch Program. Moreover, the 5 billion pound trigger is a poor measure of supply-demand balance in the U.S. dairy industry, as we saw in 1988 and as we're seeing again this year. CCC purchases have been running at about 9 billion pounds milk equivalent, calculated on a fat solids basis, but cheese and nonfat dry milk markets have been extremely tight.

As a result, CCC purchases essentially consist of butter only, which has a high milk equivalent when calculated on a milk fat basis. Under USDA's forecast of expected CCC dairy product purchases during calendar year 1989, those purchases would amount to 8.5 to 9 billion pounds milk equivalent when calculated on a milk fat basis. But the same purchases total only 1.3 billion pounds, calculated on a milk solids, not fat basis.

Perhaps the most accurate way to measure CCC purchases is to weight them on a total milk solids basis, which reflects the relative proportion in which the components of milk naturally occur in whole farm produced milk. Using this method, USDA's forecast of CCC purchases amounts to 3 billion pounds milk equivalent for this year.

These differences are obviously critical. Under USDA's current method of calculation, the Secretary is likely to cut the support price at the end of this year even though the industry is in an overall supply-demand balance and markets for cheese and nonfat dry milk are tight. Clearly, the milk fat basis for the milk equivalent calculation is a poor measure of CCC purchases. Calculating the milk equivalent on a total milk solids basis would give a much more accurate picture of the overall supply-demand situation in the dairy industry, enabling the Dairy Price Support Program to be administered in a manner fully consistent with the intent of Congress and the stabilization objective of the program.

Another area of Federal agricultural policy important to dairy farmers is the Federal Milk Marketing Order Program. We support the basic Federal legislation authorizing the Federal Milk Marketing Order Program, which facilitates the orderly marketing of milk.

Because of the potential income loss to the Nation's dairy farmers, we oppose legislation that would mandate the merger of Federal milk marketing orders on either a national or regional basis. Our policy is to pursue modifications of Federal order provisions to provide for continued equitable treatment of producers and other segments of the diary industry.

Finally, let me make a brief comment on the current international trade negotiations, an issue which could have a major impact on the future of the Nation's agriculture policy.

We have serious concerns about the potential outcome of the GATT negotiations, concerns which I have elaborated in my prepared testimony. I simply want to say that we view it as critically important that this committee and the Congress maintain its role in the establishment of U.S. agricultural policy. Our farm programs must be written here in these United States and not in Geneva, Switzerland.

Again, I appreciate this opportunity to appear before you and the committee today, and I will be happy to respond to any questions.

[The prepared statement of Mr. Camerlo appears at the conclusion of the hearing.]

The **Chairman**. Thank you very much, Mr. Camerlo. There is another vote on and the members have not returned, but I don't have any questions except to thank you again for your cooperation and always the excellent input which you give us on behalf of your industry.

If you have a plane to catch, Godspeed. Thank you very much, sir.

Mr. **Camerlo**. Thank you, Mr. Chairman.

The **Chairman**. Mr. Dan Koons, National Cattlemen's Association. We will be very happy to hear from you at this time.

STATEMENT OF DAN KOONS, CHAIRMAN, AGRICULTURE POLICY COMMITTEE, NATIONAL CATTLEMEN'S ASSOCIATION

Mr. **Koons**. Thank you, sir.

Mr. Chairman, my name is Dan Koons, and I represent the National Cattlemen's Association as chairman of the Agriculture Policy Committee. I am a cattle and grain farmer from central Illinois, and I am a constituent of Representative Ed Madigan, the distinguished ranking minority member of this committee.

The $35 billion cattle industry is the largest segment of American agriculture according to cash receipts. In 23 States, it is either the No. 1 or No. 2 commodity in cash receipts. Throughout the history of the United States, the American beef industry has played an integral role in the country's well-being.

As you can see, it became important to the NCA to participate in these proceedings and in the development of farm policy because we are a major user of feed grains.

There are some issues that I would like to discuss here of importance to the NCA in the 1985 farm bill, and I would like to discuss those at this point.

The Feed Grains Program is a market-oriented and was perhaps the most important policy change for the cattle industry in the 1985 act. Buying grain based on world market prices allowed cattlemen to timely gauge production costs based on supply and demand factors.

In the area of beef promotion, the Beef Check-Off Program has helped the cattle industry to tell the story of how nutrient-dense beef benefits the diet, as well as bolster demand. The checkoff was approved by an overwhelming majority of cattlemen, and we in the industry thank Congress for giving us the opportunity to prove the merits of the checkoff program. In fact, on June 27, the beef industry recently reached its first 1,000th day of the checkoff and are pleased with the results of programs administered under the act.

Another area of concern to us was the Conservation Reserve Program. The prohibition of haying and grazing on CRP land during the term of the contract was a wise and prudent decision. With over 30 million acres now enrolled in the CRP, it is easy to see the dramatic effect haying and grazing would have had, if allowed.

In the area of haying and grazing, the new haying and grazing law was passed for annual set-aside acres in 1987 because of an oversight in the 1985 act. The new law is a fair compromise that recognizes regional differences. We hope this new law will end the continuous debate on haying and grazing.

Dairy: The Dairy Termination Program, as we all know, it was a disaster for the cattle industry. Mismanagement by USDA and the hasty manner in which the DTP was developed is well documented. NCA strongly believes DTP type programs are counterproductive and must not be utilized in the future.

In the area of clear title, the clear title provisions of the 1985 act became effective on December 24, 1986. As a result, the discrepancy between agricultural products and all other products will be eliminated, and farmers can no longer be forced to pay twice for the products they buy.

The 1985 Food and Security Act appears to be a success. One of the keys to this accomplishment was the fact that Congress did not change the act in midstream. By allowing the act to mature, farmers and ranchers have been able to plan and implement management practices without fear of Washington changing directions. NCA hopes that the 1990 farm bill will follow the same direction of longevity and relying on market forces to drive farm policy.

Cattlemen plan to remain involved in the development of U.S. farm policies. Our primary areas of concern will be the grain, dairy, and conservation titles. This is not to say that other issues will not surface as the bill develops. NCA will work diligently with other agricultural groups to develop consensus and coalitions in order to create a farm bill that we can all be proud of.

The new idea of grain policy, triple base, is being aired as a way to provide flexibility to program grain producers in their planting decisions. Some proponents of the triple-base plan would allow nonprogram crops to be grown on the third base. NCA questions the rationale of allowing nonprogram crops to be planted on protected program base acres. This idea needs special review in order to ascertain the economic effect on those producers who do not participate in Government programs. Grain policy, in any event, should continue to use market forces for price discovery.

Dairy policy will continue to concern cattlemen. At this point, there has been little talk of either a new Dairy Whole-Herd Buyout or Diversion Program, and that is encouraging. Congress must continue to develop dairy laws that ensure program accountability and low milk surpluses. The fear in the cattle industry is that if milk surpluses again go to unbearable amounts, the Congress may once again consider the slaughter of dairy cows to remove the surplus.

NCA cannot idly stand by and allow any dairy policy to be implemented that encourages overproduction of dairy cows which transpose into burdensome milk surpluses. NCA will work closely with the dairy industry to ensure that all concerns are being heard and understood. We are hopeful this dialog will continue throughout the 1990 farm bill debate.

The conservation title of the 1990 farm bill may prove to be the most controversial because of forces outside of the agricultural sector. From environmental groups, other congressional committees and the White House, the debate regarding conservation may be the most hard-fought battle.

Cattlemen, too, are very protective of the environment, but NCA questions some methods proposed to protect the environment. NCA believes it is imperative to closely guard private property rights as Congress writes environmental laws. Farmers and ranchers will depend on both of the Agriculture Committees to defend and protect the producers' private agricultural property.

The Conservation Reserve Program will certainly be reviewed and the questions of what to do with the land after the 10-year contract expires are bound to be asked. NCA's answer is to let the land return to commercial production. Some have discussed a paid extension of the CRP. If an extension program is considered, the prohibition of haying and grazing must remain intact.

Certainly there will be new issues and provisions of the 1990 farm bill that have not surfaced and will need to be discussed. NCA will closely follow all titles and will take part in developing the programs that affect our industry.

Mr. Chairman, thank you for this opportunity to testify before the committee.

[The prepared statement of Mr. Koons appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you very much, Mr. Koons. We look forward to working with you.

Mr. Gingerich, we have another vote. In fairness to the association you represent and to demonstrate the importance which we attach to your testimony, I don't want to rush you. So if you will bear with me, I will go make the vote and then come back to you.

The committee will stand in recess.

[Recess taken.]

The CHAIRMAN. The committee will be in order.

Mr. Gingerich, we would be happy to hear from you at this time.

STATEMENT OF DON GINGERICH, PRESIDENT, NATIONAL PORK PRODUCERS COUNCIL

Mr. GINGERICH. Thank you, Mr. Chairman. I am here presenting this testimony today for the National Pork Producers Council, which represents 100,000 pork producers and their families in 45 States. The National Pork Producers Council is the largest commodity dues-paying organization in the United States and accounts for more than 90 percent of the Nation's commercial pork production.

I would ask that my written testimony be submitted for the record and I will give a few brief verbal comments.

One of the major external factors affecting pork producer profitability is the policy of the Government as it impacts upon a producer's cost of doing business and a producer's ability to effectively market products.

Mr. Chairman, we commend you and the committee for its fine work in developing and implementing the 1985 farm bill. The 1985 farm bill was successful in providing a continuous supply of feed for livestock while providing new export enhancement opportunities. Our top priority now is to look ahead to the new initiatives in the 1990 farm bill, and particularly we want to focus on research, the environment, and trade issues.

Although NPPC believes that the future of our industry is in our hands, pork producers are convinced that we will need the cooperation of the Federal Government to undertake certain research programs and coordinate national efforts to control and eradicate swine diseases. Infectious diseases continue to be the main cause of illness and death in domestic livestock. We must be able to respond to disease, and the Federal Government can be of assistance with basic research and be available for consultation and coordination of these programs.

Historically, research expenditures for the improvement of animal agriculture have not been proportionate to expenditures on plant research. Swine research, in particular, is underfunded. Agriculture in the 1990's also calls for the evaluation of alternative methods to respond to the environmental concerns and new initiatives to ensure the wholesomeness of food products for the consumer.

Concerning trade policy, the market forces of supply and demand would function well in the U.S. domestic context if left alone. However, that is not necessarily the case in the international export market, where foreign producers are often subsidized. The Federal Government should expand foreign market development efforts and assist in funding agricultural organizations in a fashion not possible by individual producers who lack governmental authority and cannot readily act cooperatively.

Specifically, programs such as the Targeted Export Assistance Program provided $1.8 million in 1988 and approximately $2.5 million this year for us to promote our products through pork-specific activities in Japan, Hong Kong, Singapore, and other markets.

In addition to concerns about unfair subsidies funding foreign imports of pork, our producers are seeking further assurances that pork imports meet the same health and sanitation standards that are required of domestically-produced pork.

Water quality is an important issue to producers, both as domestic consumers and agricultural users. We pledge our support to the committee to address ground water quality concerns.

Because the 1985 farm bill has worked well in stabilizing U.S. agriculture, we encourage you to continue its general direction in the 1990 farm bill. We would support minor adjustments in price support programs, such as more flexibility of planting. The key to future farm programs is that they continue to be market-oriented.

Pork producers are concerned about food safety and see the need for continued efforts to ensure that we provide safe and wholesome products to the consumer. In fact, we have developed our own quality assurance program to help our producers avoid illegal drug residues, improve management skills, and reduce production costs.

In conclusion, the 1980's have brought dramatic adjustments to agriculture here and abroad. The 1990's are likely to bring additional changes with the world economy being more interdependent than ever. Biotechnology, environmental concerns, and more sophisticated foreign competition, point to a whole different horizon of change. We must stand ready for new directions for farm and trade policy. The National Pork Producers Council offers its services in helping to design a new farm bill that will lead us into the next century.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Gingerich appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you very much, Mr. Gingerich.

Mr. Volkmer, do you have any questions? We have Mr. Koons of the Cattlemen's Association and Mr. Gingerich. Mr. Camerlo had to depart to catch a plane.

Mr. VOLKMER. Maybe not a question, but I appreciate the support—and I've only heard the testimony of Mr. Gingerich—but support for the TEA Program. I believe there is sufficient support here in the Congress so that we will continue that. I think it's been very helpful.

Mr. Koons, I'm sorry I wasn't here for your testimony, but we had some activity on the floor that I was involved in and I had to be over there.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much. I thank the panel very much.

The next panel is Mr. Richard Adee, Mr. Binford Weaver, Mr. Brian May, and Mr. Pierce Miller. We will be happy to hear from you, Mr. Adee.

STATEMENT OF RICHARD ADEE, PRESIDENT, AMERICAN HONEY PRODUCERS' ASSOCIATION

Mr. ADEE. Mr. Chairman, I appreciate the opportunity to appear before the committee to testify on behalf of the American Honey Producers' Association on the 1990 farm bill. The association represents beekeepers responsible for the major portion of honey that is produced commercially in the United States. Our members conduct operations in most of the States of the Union. I am president of the association and a major honey producer, located at Bruce, South Dakota.

Our association strongly recommends continuation of the current Price Support Program for honey, with minor modifications. The Support Program is essential to the viability of the domestic honey industry.

A healthy beekeeping industry provides a unique service to American agriculture. It is responsible for the abundance and high quality of agricultural products that we enjoy in the United States today. It is particularly important for production of fruits and nuts, for vegetables and melons, and for a number of field crops, as well as enhancing the value of beef and dairy products which are derived from insect-pollinated legumes. In a recent study conducted by the department of entomology at Cornell University, it was conservatively estimated that about $9.7 billion, or one-third the total value of these crops, is directly attributable to honey bee pollination in bringing about increased yields and higher quality produce.

Commercial beekeepers depend for survival on the combination of pollination rental fees, the Honey Price Support Program, and receipts for marketing of their honey.

Prior to the 1985 farm bill, the Honey Price Support Program was operated through nonrecourse loans and purchase agreements. Inflation in the economy caused the price support level to rise above prevailing world market prices. This acted as an incentive for honey packers to import lower priced honey, and honey producers thus forfeited to CCC the honey that had been placed under loan. In 1985, CCC acquired 98 percent of the honey placed under loan, which was 64 percent of the domestic honey production, and honey imports rose to over 138 million pounds.

The 1985 farm bill initiated a marketing loan program for honey which drastically reduced loan forfeitures, imports, and as a result, Government costs. Under that program, the producer is able to redeem honey farm loans at prevailing world market prices. For the 1986 crop, forfeitures dropped to 24 percent of loan collateral, and by 1987, imports had contracted from 41 percent of domestic use to 18 percent of domestic use, and exports for the first time began to rise. Outlays for fiscal year 1987 declined to $72.6 million.

Since that time, complications were added to the Honey Program through the imposition of a payment limitation and a loan limitation. The loan limitation was lifted for 1 year, only to be supplanted by a loan forfeiture limitation. I need not dwell on that issue, only to say that these limitations have had the effect of increasing, not reducing, program costs.

The 1985 farm bill also provided for annual reductions in the honey support rate, increasing to 5 percent beginning with the 1988 crop. Additional reductions were later added as compensation for lifting the loan limitation for a brief period, causing the loan rate to fall as much as 8 percent in 1 year. In all, the honey support rate fell from 65.3 cents per pound for the 1985 crop, to 53.77 cents per pound for the 1990 crop, almost 18 percent, a larger drop than any other commodity.

The Marketing Loan Program has worked well and we urge that it be continued to assure movement of honey into commercial markets, a reduction in imports to those needed to meet any shortfall in domestic supplies and lower Government costs.

There are refinements, however, that we seek in the program. The loan rate should not continue its downward plunge. The support rate on honey has been reduced more than any other commodity by the 1985 farm bill, and is reaching the point where the level will no longer be able to keep our producers in business. Also, honey is the only commodity which is subject both to a payment limitation and a loan forfeiture limitation. The combination of the two limitations has been counterproductive. It has created administrative complexities and has limited the flow of honey through the loan program into the market.

Under the 1985 farm bill, exports of honey have begun to expand. There is potential for an even larger increase in exports through continued support of the Cooperator Program and the Targeted Export Assistance Program. We, therefore, wish to add our voice to the other commodity organizations that are looking to the committee to continue these programs at their current level. They more than pay for themselves by improvements in our balance of trade.

Mr. Chairman, I appreciate the opportunity to share my views with you.

[The prepared statement of Mr. Adee appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you very much, Mr. Adee.

Mr. Weaver.

STATEMENT OF BINFORD WEAVER, MEMBER, LEGISLATIVE COMMITTEE, AMERICAN BEEKEEPING FEDERATION, INC.

Mr. WEAVER. Thank you, Mr. Chairman. I am Binford Weaver of Navasota, Texas, speaking on behalf of the American Beekeeping Federation. I want to thank you for this opportunity to present our views on the effectiveness of the 1985 farm bill and the need for this program to be continued in the 1990 farm bill.

Our association, of which I'm a past president and currently a member of the legislative committee, includes members from every State in the Union and involves every aspect of beekeeping. We are in favor of continuing the honey provisions of the 1985 farm bill, with only minor changes.

The effect of the 1985 farm bill on the U.S. honey producer has been dramatic. Under the old program, the producer was forced to choose between selling his honey at world market prices, which were substantially below the cost of production, and forfeiting the honey at the support price. Most were forced to forfeit their honey and the honey packers used imported honey to fill their needs. With the change to a marketing loan approach in the 1985 farm bill, which allowed the producer to redeem his honey at a lower rate, the situation changed rapidly. The repayment rate is set to allow domestic honey to compete with imports and to reduce program costs. Loan forfeitures are now less than half what they were in the period of 1983 to 1985, and imports are also less than half. In other words, our domestic honey is returning to its rightful place in the market.

We are now beginning to market our fourth honey crop under the provisions of the 1985 farm bill. There have been some bumps in our progress, but we look for a continued decline in program costs and in honey forfeitures. The American Beekeeping Federation is committed to pursuing both of these goals.

The troublesome feature of the Honey Program has been the steady decline of the support rate. The reductions mandated in the

1985 farm bill, together with the appropriations reductions, will have reduced the honey price support by 18 percent from the 1985 crop to the 1990 crop. We can find no comparable reductions in the support rate for other commodities. In the meantime, normal operating costs have climbed, and two bee pests new to the United States—the tracheal mite and the varroa mite—have proven to be very costly. Current treatment programs could add from $10 to $12 per colony to our operating costs, and replacement of colonies lost to these pests adds substantially to the costs of many producers. Ahead of us we have the Africanized bee, which is certain to further increase our operating costs.

We feel that an increase in the honey support rate is in order, that some of the cuts of the previous 5 years should be restored. If the current decline in prices continues, many beekeepers will be forced out of business. Not only will that drive out many small family farmers, but it will have a serious impact on agriculture as a whole because of the honey bee's role in the pollination of so many of our crops.

Another major consideration in maintaining a viable beekeeping industry is that our beekeepers are our first and practically only line of defense against the spread of the Africanized bee. Without a well-organized beekeeping industry, these aggressive bees will continue to spread until they reach their natural limits, wherever that might be.

We must also have a strong bee research program to cope with these new problems. There is a good research program on Africanized bees, but more is needed. The Agricultural Research Service and the university researchers have found some tools for us to work with, but more is needed to bring these three new pests under control. We also need regulatory help from the Animal and Plant Health Inspection Service to help control the spread of these pests.

I don't want to sound like all is "gloom and doom" in the beekeeping industry. With the support of this committee and its able chairman, the American honey industry has developed a highly successful, self-supporting promotion program. Mainly through the efforts of the National Honey Board, the long decline in honey usage in this country has been stopped, and a healthy increase in consumption has already occurred. If this trend can continue, the world surplus of honey can be erased.

We appreciate the support we have received from the House Agriculture Committee in the past, and look forward to working with the committee on the 1990 farm bill. Thank you again for the opportunity to present our views.

[The prepared statement of Mr. Weaver appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you very much, Mr. Weaver.

Mr. May.

STATEMENT OF BRIAN J. MAY, EXECUTIVE DIRECTOR, MOHAIR COUNCIL OF AMERICA

Mr. MAY. Thank you, Mr. Chairman. I appreciate the opportunity to speak to you on behalf of the mohair industry of the United

States and of the individual producers. I am a mohair producer near San Angelo, Texas, and the executive director of the Mohair Council of America.

We are here to present to the committee and to point out the many positive features of the Wool Act and what it contributes to both the mohair industry and in terms of the Nation. There have been only 16 mohair payments to the growers under the Wool Act in the past 34 years. Total mohair sales during that payment period were $176 million. Ninety-eight percent of this production was exported overseas.

Mohair comes from the Angora goat and it is the most important specialty fiber produced in the United States. The United States produces 35 percent of the 50 million pounds available in world markets each year. Along with Turkey and South Africa, the U.S. accounts for 95 percent of the world's mohair production. Since the largest part of the Turkish clip is processed and consumed internally or bartered with the U.S.S.R., the free world depends on us and South Africa to supply their raw mohair needs, particularly of the higher quality product.

Important reasons for the renewal of the Wool Act are these.

Since the inception of the act, the revenue generated from mohair sales has been over $750 million, and since it is an export commodity, this has contributed to a more favorable balance of trade.

Angora goats make excellent use of the low quality range plants. In addition, they contribute to water conservation by utilizing water-wasting woody brush plants. Angoras are often used, instead of toxic chemicals, to open up brush infested pasture land.

In recent years, many Angoras have been purchased for small land tracts for diversification in farm flock programs and to supplement other income. For example, in Oklahoma a few years ago, when many ag lending agencies were being hard hit, bank loans on Angora goats were the best performing notes in that area.

Income from mohair is very important to producers in one large part of Texas, an area as large as the State of Pennsylvania, and the members of the Navajo tribe who reside on tribal land in the four-corner area of Utah, New Mexico, Colorado, and Arizona. Nationwide, there are about 10,000 ranch families that depend on Angora goat for the major part of their income, and in 10 counties in Texas, it ranks from 20 to 45 percent of their total agricultural income in that county. Other support industries account for thousands of additional jobs which rely on mohair.

Since mohair is a specialty fiber, its market is subject to many problems, including manipulation. Due to the volatility of market prices, both producers and end users seek some measure of stability as is provided in the terms of this program. This floor price tends to give lending institutions in our area confidence to finance Angora goat operations as the wide price fluctuations that make their lives very difficult is on the down side.

There appears to be no reason to discontinue, modify or suspend the Wool Act, as it has performed exactly as the original legislation intended. This industry, through the direction of the unique features of the Wool Act, is one of the best examples of cooperation between this committee, the Secretary of Agriculture, and the mohair producers.

The Wool Act has allowed producers, at no cost to the taxpayers, to improve the quality and quantity of their product in response to world demand and in spite of price manipulations. The mohair producers in the United States trust that Congress will continue to acknowledge the effectiveness of the Wool Act and hope that Congress will realize that these funds for this program are not based on any tax legislation but actually come from tariffs on imported wool and mohair produced outside of this country.

Mohair producers do not want, nor do they see a need, to make any changes in the Wool Act. The act should be renewed to include the incentive features which enhance the quality and quantity of mohair, and to be able to deduct funds out of this payment to conduct advertising and promotion programs and develop new markets overseas as well as inside the United States, as we have done with the Mohair Council of America.

Thank you, Mr. Chairman.

[The prepared statement of Mr. May appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you very much, sir.

Mr. Miller.

STATEMENT OF PIERCE MILLER, CHAIRMAN, LEGISLATIVE COUNCIL, AMERICAN SHEEP INDUSTRY ASSOCIATION

Mr. MILLER. Good afternoon, Mr. Chairman, Congressman Stenholm. My name is Pierce Miller and I'm a sheep and goat rancher from San Angelo, Texas, as well as being president of the Texas Sheep and Goat Raisers Association. I am representing the American Sheep Industry Association, with over 115,000 sheep and 10,000 goat producers in this country.

I am going to deliver a summarized statement and would request my full statement be entered into the record.

I am chairman of the legislative action council of the newly formed American Sheep Industry Association, which joined the National Wool Growers Association and American Sheep Producers Council this past January. The foundations of the American Sheep Industry Association are over 120 years old and represent the oldest livestock commodity group in this country.

I would like to talk about the importance of continuing the Wool Act and its significance to rural America. Our industry supports extension of the Wool Act for the 1990 farm bill, and the incentive program for wool and mohair it provides.

Since 1954, the American sheep and goat producers have relied upon the Wool Act to improve their ability to compete with foreign imports of raw wool. This law, known as the Wool Act of 1954, changed the basic nature of the wool and mohair program from the price-support loan programs that had existed previously. To offset the market-depressing impact of imports, incentive payments were authorized based on the average market price. These incentive payments have stabilized income received from wool and mohair, making it economically feasible to produce wool and mohair consistently in the United States.

Over the past third of a century, this same law has been renewed with only minor changes. However, unlike some commodity programs, if the law is allowed to expire, there is not a permanent base law which continues the policies of the Wool Act.

One of the biggest innovations of the 1954 law was the funding for the incentive payments. Funding is supplied through the tariff collections on wool. According to the report of this committee in 1985,

> The National Wool Act of 1954 provides a permanent appropriation to the Commodity Credit Corporation, under which the Corporation is reimbursed each fiscal year an amount to cover program costs that cannot exceed 70 percent of the wool duties collected under the Tariff Act of 1930.

This unique element of the program was key to the proposal presented by the Eisenhower administration in 1954.

Although producers are entitled to payments up to 70 percent of the tariffs collected, the payments for wool and mohair have averaged only 35 to 40 percent of the available amount over the past several years.

In 1985, the Congress once again recognized this unique feature. According to the House Committee on Agriculture's report on the Food Security Act of 1985, the costs associated with the Wool Price Support Program are not a burden on the U.S. taxpayer. This is because foreign competition for American wool actually reimburses the Federal Treasury for incentive payments to domestic producers, resulting in no net cost to the U.S. taxpayers.

We must be able to supply more of our own needs. The Wool Act provides incentives to our producers to encourage production. It also authorizes the Secretary of Agriculture to develop a promotional program with a check off from the incentive payments. The combination of incentive and promotion is working. Quality, supply, and demand are improving. This check-off program was the first self-help commodity program.

What does the future hold? U.S. producers and manufacturers of wool products have the potential to more fully meet consumer demand and return jobs to this country. But to do this, they must have the stability furnished by the Wool Act.

Through the promotional funds available through the Wool Act, lamb and wool are increasingly finding their way back into the American home. Consumers are wearing wool year-round in the workplace, and nutrition conscious food buyers are demanding lean lamb.

Our Nation's sheep and goat industries have had a long history and have a great future in this country. Renewing the Wool Act will give the industry the financial stability it needs to continue promotion and increase production to meet the needs of the American people. This increased production in turn will reduce our country's dependence on imports and continue the vital rural development impact of the Wool Act.

The Wool Act is a law we can be proud of, and it should be renewed in its present form.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Miller appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you very much, Mr. Miller.

Mr. Stenholm, do you have any questions?

Mr. STENHOLM. I have a question.

Mr. Weaver, would you happen to know what percent of parity 53.44 or the current honey price is?

Mr. WEAVER. No, sir; I do not.

Mr. STENHOLM. I can check that myself. I was just curious. I know it has been cut.

I have no real questions at this time, Mr. Chairman, but are there any comments that you might have on the effect of your programs with anything going on in GATT?

Mr. MILLER. On the Wool Program, Congressman, I see nothing there. I gave testimony to the Trade Commission back in June regarding the importance of the Wool Act to the sheep and goat industries in the United States. I felt that the removal of such would be certainly a detriment, not just to those communities but to those rural communities that have very few alternatives for the use of their lands, especially in the West.

[EDITOR'S NOTE.—The July 13, 1989, letter from Mr. Miller follows:]

American Sheep Industry Association

July 13, 1989

The Honorable Charles W. Stenholm
U.S. House of Representatives
Washington, D.C. 20515

Dear Congressman Stenholm:

After further consideration of your questions about the Wool Act during my testimony on July 12, I would like to clarify my response to your GATT question.

The Wool Act of 1954 tied tariffs on the imports of wool and woolens to the incentive program for wool producers. For 35 years this law has directed up to seventy percent of the collected duties to be appropriated to cover the costs of wool incentive payments to producers. In 1988, the duties collected totaled $435,622,000. In 1988, $130,635,000 in incentives were paid for the 1987 marketing year for wool and mohair. For the 1988 marketing year, incentive payments were only $88,509,000.

If the duties are lifted, the existence of the entire wool program would be in jeopardy. Furthermore, the added cost to American consumers is minimal. In fact under the most liberal assumptions the duties accounted for less that 17 cents on a $95 sweater in 1988.

Thank you for the opportunity to more fully respond to your question.

Sincerely,

Pierce Miller

Pierce Miller
Chairman, Legislative Council

412 First Street, S.E. • Washington, D.C. 20003 • (202) 484-2778
200 Clayton Street • Denver, Colorado 80206 • (303) 399-8130

Mr. **Weaver**. Mr. Stenholm, I don't see how the reduction of tariff barriers, especially in the European Economic Community, could do anything but help the American honey industry. They are getting a good portion of their honey from other places besides the United States, but it would certainly lower their cost and probably increase their consumption of honey and help get rid of this world surplus that we're trying to get rid of with our National Honey Board. I think lowering the tariffs would help.

Mr. **Stenholm**. Have either of you seen any change, up or down, in export opportunities for your respective commodities?

Mr. **Adee**. Yes, Mr. Stenholm. Our exports are going up. Of course, we're competitive under the marketing loan. We have an opportunity now to——

Mr. **Stenholm**. Is the market loan making it competitive?

Mr. **Adee**. Yes, sir. Also, we have received some of the TEA funds, $500,000 for this year, and we're utilizing those for market research in the European countries, the Far East and Middle East. Hopefully next year we're going to request a little more. But there is opportunity there, yes, sir.

Mr. **Stenholm**. The TEA funds were helpful to you?

Mr. **Adee**. Well, we're just now developing our programs. We're sure hopeful they will be, yes.

There are some tariff barriers and nontariff barriers that we're bumping up against on honey. It's going to be really hard to get into the "lucrative," German market. The German people use twice as much honey as we do, and yet they have some nontariff barriers there that make it a little hard for us to get into those markets.

Mr. **Stenholm**. Are these barriers protective of their own domestic industry, or is someone else utilizing them?

Mr. **Adee**. To a degree they're protective of their own domestic industry because the honey that is produced within the country does not have to meet the standards of honey coming into the country. Their guidelines for imported honey sometimes are made more or less to suit the needs of the country, and if there is enough honey in the country, they can raise them; if there's not enough, they will lower them.

But the tariff barrier is probably the big—the European Community has a 27 percent duty, and Japan a 30 percent duty. Those both are good markets that we could sell into if we could get into them. The United States has a 1 cent per pound import duty, which is not very much of a barrier at all. It's no barrier. So if we could access those markets, we could sell more honey.

Mr. **Stenholm**. We have a 1 cent per pound?

Mr. **Adee**. Yes.

Mr. **Stenholm**. And the two markets you mentioned were——

Mr. **Adee**. The tariff of the European Community is 27 percent and the Japanese have a 30 percent tariff. That's ad valorem.

Mr. **Stenholm**. You could very well be affected positively in GATT if there are some breakdowns of barriers.

Mr. May, you had a comment?

Mr. **May**. Yes, sir. We would just like to say, with mohair being 98 percent exported, we appreciate the cooperation that the Foreign Agricultural Service has lent us, through helping us to develop further markets. We are having a bit of a problem especially working with the Soviets. They are the largest end user of mohair in the world. They are having a bit of a problem coming up with the particular hard currency. We would probably have to work with somebody in the Foreign Agricultural Service to help us do something, maybe doing some type of barter trade or whatever. But they would like to buy more of our mohair if we could get that barrier passed. But it is certainly nothing that GATT can affect.

Mr. STENHOLM. Mr. Chairman, if I might have a couple more minutes to ask one question of Mr. Miller.

The CHAIRMAN. The gentleman may proceed.

Mr. STENHOLM. My understanding is there's going to be a GAO report issued on the Wool Program. Is this true? Can you kind of discuss, briefly and quickly, the extent of what that means?

Mr. MILLER. Well, we have done extensive interviewing with Mr. Tye Griffiths that conducted the GAO study. I understand that should be out some time next week. I very much look forward to seeing just what the report has to say.

The details, of course, are still unknown to me, but he did take quite a bit of time familiarizing himself with their industry, understanding just what the incentive payment does mean to industry and where it's being placed, too. You know, we talk about the ranches and what kind of economic alternatives are truly in some of these communities, if they don't have sheep, goats or cattle. They can't bring in a computer firm because they don't have the other basics to go with it. So we talk about rural development. This is a very good example of how it works.

Mr. STENHOLM. Thank you, Mr. Chairman.

The CHAIRMAN. I thank the gentleman.

To my colleagues and my friends, this concludes the witnesses for today.

Let me say that throughout the day we have woven a mosaic of what American agriculture is all about—the most productive in the world: Sheep and goats, mohair, beef, pork, cattle, milk, grain trade, farmer co-ops, sorghum, oats, corn, cane sugar, beet sugar, peanuts, cotton, rice, wheat growers, soybean growers, Women in Farm Economics, their WIFE group, the Center for Rural Affairs, the Agriculture Policy Committee, the National Grange, the Farm Bureau, the Farmers Union, and AAM.

Tomorrow we will have World Perspective, Coalition on Food Policy, Rural Electric Co-op, National Association of State Universities and Colleges, Farmland Trust, Resource Economics, Wildlife Federation, Audubon Society, the Association of Fish and Wildlife, the Milk Industry Foundation, Sweetener Uses, the Farm and Industrial Equipment Institute, the Fertilizer Institute, Agriculture Chemicals Association. Those are just a few of the mosaic of what American agriculture is all about.

What does this mean? It means the best-fed people in the world for the least amount of disposable income in the world. What does it mean trade-wise? Well, let me just give you some figures for the forecast for 1989.

Exports: Japan, $7.3 billion, expected to grow to $7.9 billion in 1989; European Community, $8 billion; the Soviet Union, an expected $3.4 billion in 1989; Canada, $2 billion in 1989; Mexico, $2.1

billion in 1989; France, in 1988, $565 million; Germany, $1.3 billion; Spain, $848 million.

This is the only thing bringing money back from abroad. We're not the greatest industrial nation in the world. I say, with some degree of sadness, that they're not buying what we manufacture—our cars, our calculators, our radios, our televisions, our washing machines, our refrigerators. They're not buying that. They're buying what these people who were here today produce. This is the amount and this is what this hearing is all about: How do we preserve, protect, and defend these figures and enhance them?

I mention this also because the headlines today are about congressional travel, where did members of this committee go. I have probably 8 or 10 calls saying, hey, you traveled abroad for some institute, for something, and why did you travel? Where did you travel to?

Here are the figures of what this committee helped with. Yes, we went to the Soviet Union to talk about agriculture, $3.4 billion. Yes, I went to Japan to help sell citrus and beef, $7.9 billion. Yes, I went to France, $565 million. Yes, I went to Spain, $848 million. Yes, I went to Mexico, $2.1 billion.

I had the honor and the privilege to sit with the outgoing President of Mexico on one day and visit with the incoming President of Mexico on the next day, with the outgoing Minister of Agriculture on one day and with the incoming Minister of Agriculture on the second day, the highest levels of government, to speak about agriculture. But I'm getting calls from every little "cub" reporter out there, "Well, this institute says you went and you've been widely traveled."

We had the gentleman from Texas, Mr. Stenholm, accompanying us on some of those trips. I met with the Minister of Agriculture in Spain privately to speak about agriculture. I met and traveled with the Minister of Agriculture from the Soviet Union there and when we had had him here, we showed him American agriculture. We just met with the President of the European Commission. I met with the Minister of Agriculture in Japan. I met with the Minister of Commerce in Japan. I was received by the Prime Minister of Japan. The lowly Member from Texas, the chairman of the Agriculture Committee, was received by the Prime Minister of Japan. To talk about the weather? No, to speak about agriculture and what we could do together and what we could sell.

We went to Geneva. They will probably make a big to-do about that, "de la Garza goes to Geneva." Yes, to the GATT meeting to defend our interest and your interest against the world. And to Italy. They said, "Oh, you went to Verona, Italy. Why would he go to Verona, Italy?" To sell Texas wines and wines from the United States of America, that's why we went to Verona, Italy.

Czechoslovakia. Who would want to go to Czechoslovakia? I signed an agreement on behalf of Texas A&M University to have an exchange in research between Charles University, the first or second oldest in the world, and Texas University.

All of that, my friends, is encompassed in what we did here today and what you helped finalize as the last witnesses here. That's what that mosaic of American agriculture is. That's what we do and that's what our business is.

I thank all of you who have been here today. I regret that we really don't have all the time to visit in an extended way and have dialog, but we will be traveling through the countryside and we are always open for all who would care to come.

Mr. Weaver and Mr. Adee, I went to Mexico. Why would I go to Veracruz? Not to go to the beach. It was to go into the jungle and see the Africanized bee. I went to Tapachula in Mexico, the Mediterranean fruit fly plant. I went to Tuxtla Gutierrez. Who would go to Tuxtla Gutierrez? That's where the screwworm eradication plant is located. I guess I'm speaking on behalf of the committee and all who traveled with me, because that's what we were doing.

I thank all of you who have been here. We will stand adjourned until tomorrow morning.

[Whereupon, at 4:45 p.m., the committee was adjourned, subject to the call of the Chair.]

[Material submitted for inclusion in the record follows:]

STATEMENT OF THE AMERICAN FARM BUREAU FEDERATION BEFORE THE HOUSE COMMITTEE ON AGRICULTURE REGARDING THE 1990 FARM BILL

Presented by

Dean Kleckner, President
American Farm Bureau Federation

July 12, 1989

The American Farm Bureau Federation (AFBF) is the nation's largest general farm organization representing more than 3.7 million member families in 49 states and Puerto Rico. I am Dean Kleckner, President of AFBF and a farmer from Rudd, Iowa, where I raise corn, soybeans and hogs. I am pleased to present the views of our members to the House Agriculture Committee today regarding the very important issue of the 1990 farm bill.

It does not seem very long ago that our members were gearing up for action on the 1985 farm bill. However, the conditions facing agriculture today are very different from what they were in 1984 and 1985. The issues that must be addressed are no less important than those covered by the last bill, but there is less of a crisis mentality associated with agricultural issues today.

While the Food Security Act of 1985 played an important role in improving the economic situation in agriculture, we should not forget that factors totally unassociated with the bill, like the price of fuel, favorable marketing conditions for livestock and poultry, positive developments in farm policies abroad and economic growth in the rest of the world, played major roles in improving the income situation of U.S. agriculture. I bring this up so that we do not forget that farm policy is just one of many factors that affect profitability in agriculture. Agriculture does not exist in a world by itself, and farm policy must be consistent with the realities of global economic and political forces.

The Food Security Act of 1985 and the other beneficial conditions experienced over the last four years have led us to a point that we can make the following observations about U.S. agriculture today:

(1) Agricultural exports have improved in both value and volume as our policies have allowed major U.S. agricultural export commodities to be generally priced competitively in domestic and foreign markets.

(2) Net farm income has been at relatively high levels during the past four years.

(3) Carryover stocks of nearly all the major farm program commodities have been reduced significantly.

(4) Commodity prices generally are responding to market signals rather than being set by government programs.

(5) As expected, the yearly cost of the agricultural programs has gone down over the life of the bill.

(6) The Conservation Reserve Program has aided the soil conservation effort.

Farm Bureau had three major policy goals for the Food Security Act of 1985: (1) Supporting farm income; (2) Pricing U.S. agricultural commodities competitively; and (3) Reducing levels of government owned and managed stocks. We believe that the bill was largely successful in helping to accomplish those goals.

The task before us now is to take the current situation in agriculture and current farm programs and build on them so that agriculture can prosper into the 1990s. As I stated earlier, we must keep in mind the many forces affecting farm income that are beyond the control of Congress. The next farm bill must be flexible enough to deal with that uncertain future.

The voting delegates at AFBF's 70th Annual Meeting in San Antonio, Texas, addressed the basic goals and objectives of the next farm bill in adopting the following policy:

> NATIONAL FARM POLICY
>
> Improving net farm income and enhancing the economic opportunity for farmers are Farm Bureau's most important goals.
>
> We favor a market-oriented agriculture with supply and demand, rather than government action, ultimately determining production and price.
>
> Subsequent to the Food Security Act of 1985, a consistent market-oriented farm program should be pursued that would:
>
> (1) Rely less on government and more on the market;
>
> (2) Allow farmers to take maximum advantage of market opportunities at home and abroad without government interference;
>
> (3) Encourage production decisions based on market demand;

(4) Provide income support at a level that would not interfere with opportunity for income from the market;

(5) Encourage needed adjustments in resource use;

(6) Minimize or eliminate the impact on non-program commodities;

(7) Provide for minimal government stocks; and

(8) Be consistent with and complementary to international economic and foreign relations policies.

Our members were very clear in outlining the general direction for future farm programs. The first four points all tie farm programs to market reality. U.S. farmers utilize about $800 billion worth of resources in their production efforts. They own resources with the intention of using them to produce products and sell those products in the marketplace, both domestic and international. All farm programs have to be consistent with that need to produce and sell to a consumer market.

The fifth point encourages needed adjustments in resource use. Agriculture is constantly changing based on market demands and changing production technologies. Farm programs must be flexible enough to allow production agriculture to respond to changes as consumers worldwide make their voices heard in the marketplace. As part of the needed adjustments, we have supported allowing a 10 percent shift between base acres of program crops and initiatives for the updating and proving of program yields. The biotechnology revolution will continue to provide new opportunities for farmers to reduce their cost of production, improve the quality of products and minimize the introduction of chemicals and pesticides into the environment.

Producers of non-program commodities want a greater voice in determination of farm programs. It is evident that the markets for commodities produced without government price and income support programs are affected by farm program policies. Certain proposals to adjust farm programs would substantially increase the extent of those impacts. This is particularly important when issues like increased planting flexibility and shifting production patterns to meet environmental requirements are addressed. We must make sure that one group does not benefit at the expense of others.

Now is the time to address the issue of government grain and cotton storage programs. As I noted earlier, one of the goals of the 1985 legislation was to reduce the level of government owned and controlled stocks. That has largely been accomplished, but those stocks could be quickly rebuilt if we were to revert to the failed price support policies and storage policies of the past. The focus of policy has to be on producing the commodities in demand and selling those commodities in an orderly marketing manner, rather than producing for loan prices and storage payments and, thus, burdensome carryover building up supplies.

These same concerns apply to dairy. CCC held stocks and government costs have been reduced dramatically. One item that still needs to be addressed is the butter surplus. This is the only dairy product that is currently being purchased in any significant quantity.

The eighth point in our future farm program policy deals with international policy. As you are all aware, the Uruguay Round of GATT negotiations is past the half-way point. The April mid-term framework agreement outlines the work that must be done to achieve the goals defined for agriculture. Farm Bureau has been a strong supporter of U.S. efforts in these negotiations. Any trade related segments within the new farm bill will need to be flexible enough to conform to a multilateral plan for the reduction of trade distorting subsidies and market access barriers, should one be forthcoming.

We will oppose, however, any proposed provisions which would require the U.S. to take unilateral action to eliminate existing policies. While U. S. farmers can effectively compete with farmers anywhere in the world, we can only do so if we are on an equal footing. We can not compete with governments that unfairly subsidize their farm producers.

Two other issues that affect farm programs are not addressed in our policy on farm programs, but appear elsewhere in our policies. These are the federal budget and environmental issues.

While the federal budget is certainly an issue in farm programs, it should not be the driving force in farm policy. As we all know, net outlays on price and income support programs have declined from almost $26 billion in fiscal year (FY) 1986 to about $14 billion this fiscal year, FY 1989. Projections for future years put outlays at about $10-12 billion per year.

Attempting to limit farm program expenditures to their range will necessitate difficult choices among well intentioned and desirable programs. We believe that we can effectively develop and implement such programs that will meet this targeted range provided that there is sufficient latitude within the program to respond to the vagaries of conditions that affect agriculture. It is our desire that the 1990 farm bill contain a policy objective that farmers receive a greater portion of their income from the marketplace.

The environmental issues are considerably more complex. Farm Bureau's first concern is with the opportunity to produce. If the environmental portions of the new farm bill are so restrictive that farmers and ranchers lose the opportunity to use the resources they control, then the farm bill will be a failure, regardless of other provisions it may contain.

As far as soil erosion is concerned, the most far reaching provision of the 1985 farm bill has yet to be implemented. While most of the conservation compliance planning has been completed, it will be another 5 years before the plans are fully implemented and the results are known. However, initial evaluation of the plans being developed indicate there will be significant reductions in erosion from highly erodible land. Since the impacts of the 1985 farm bill on conservation compliance are far reaching and yet to be fully implemented, it would be prudent to leave well enough alone and let the 1985 legislation run its course.

While it is easy for someone else to say what should be done in a farming or ranching operation, it's the role of the farmer as a manager of resources to actually make production decisions. As long as the focus is on what is feasible from a management standpoint, strides can be made in improving the environment.

We in Farm Bureau are looking to the 1990 farm bill to further improve the net farm income of our members. We look forward to participating in future hearings on the next farm bill. I would be happy to answer any questions.

NATIONAL
FARMERS
UNION

Testimony of

LELAND SWENSON, PRESIDENT
NATIONAL FARMERS UNION

Before the House Committee
on Agriculture

July 12, 1989

600 Maryland Avenue, S.W. • Suite 202 • Washington, D.C. 20024 • Phone (202) 554-1600

Thank you, and good morning. I am Leland Swenson, President of the National Farmers Union, a general farm organization serving nearly 300,000 farming and ranching families across the country. I appreciate the chance to be here this morning. My statement both offers Farmers Union's farm bill suggestions, and responds to testimony previously given to this Committee and the Senate Committee on Agriculture, Nutrition and Forestry by Agriculture Secretary Clayton Yeutter.

Last March, the National Farmers Union held its 87th Annual Convention in Arkansas, and portions of the delegates' approved policy statement for 1989 which relate to the farm bill are attached to my statement. Farmers Union stands for a simplified and more direct program that returns to the goal of assuring producers a reasonable livelihood by providing price and income protection on a family farm level of production.

In other words, we stand for the sustainability of family farms, whether we're discussing commodity programs or the best stewardship of our soil and water resources. The single best thing we can do to encourage good resource stewardship practices is to give farmers the realistic hope of passing a profitable farm operation down to the next generation.

Like many members of this Committee, Farmers Union has been working since the passage of the Food Security Act of 1985 on recommendations for a long-term farm and food policy. An outline of our ideas is attached to my testimony, and I would like to highlight some of our recommendations this morning.

National Farmers Union recommends several changes in regard to policies on dairy and livestock products. First, we believe the support price program should reflect a two-tiered approach, in which the first, or base tier, representing production for which there is a known market, is priced at a level allowing a family-sized operation to earn a living. The second, or excess tier, representing surplus production, should be priced too low to be profitable. Expansion should be only in response to demand, and first priority should be given to beginning and smaller-sized farms. We believe that this type of supply management program could be administered in such a way as to justify the continuance of Section 22, which is currently under fire at the General Agreement on Tariffs and Trade (GATT) even though it predates these trade negotiations.

Second, we recommend updating milk marketing orders by consolidating them to the extent it would improve producer income and market administration, and by replacing the current system of transportation differentials with a new system using multiple basing points and component pricing.

Third, we must review the idea of "surplus" dairy products, to ensure that a genuine reserve of dairy products and products used to fulfill commitments of other government programs are not used against producers to lower their prices. We cannot tolerate a system in which the hungry are told that there are no dairy products left for them to eat, even as dairy farmers are told their price is being reduced because of unreasonable surpluses.

Finally, we recommend a close review of the Packers and Stockyards Act to protect all livestock producers from unfair competition and monopolistic practices by strengthening enforcement provisions and discouraging mergers resulting in excessive concentration. We are currently facing a situation in which three vertically integrated companies control more than 75% of the processed beef in this country. Our states are wrestling with the question of corporations that, in one fell swoop, could double the number of hogs in the state. We cannot bury our heads in the sand and hope "the market" will take care of everything, because soon there will be no market unless a producer is under contract with one of these companies.

With regard to grains, we would recommend returning to the idea of a normal crop acreage base, with proven yields. We would also recommend setting up regional base pools, according to traditional production patterns. For example, if a region traditionally produces 60 percent of the country's corn, it would receive an allotment of 60 percent of the corn base, which would be reallocated to individual producers. Assuming the region would also have a percentage of other commodity bases, such as oats, an individual producer could trade corn base for an amount of oat base within the pool by applying at his local ASCS office. This would allow producers to respond to local market signals, while still allowing supply management over the region. We believe that the pool would balance out over the region, but additional base could be brought into the pool by using multi-year set-asides and penalizing producers who jump in and out of the program by reducing their base allotment.

Bases should be established by units of production, sufficient to meet our domestic, export, and reserve needs. We agree with Secretary Yeutter that our reserve policies should be reviewed, although we differ in approach. The farmer-owned reserve should be used to prevent shortages, not to depress prices. Unless a farmer is storing a commodity for his own use as a type of tangible crop insurance, on-farm storage is the same service to the public as commercial storage, and it should be paid by the same rates.

Secretary Yeutter has correctly called for finding ways to reduce program costs. Unfortunately, once he ruled out cutting EEP funding, raising loan rates, and increasing acreage set-asides, it was clear that his preferred way to balance the agricultural budget was to reduce farm income dollar for dollar. We cannot agree with that approach. Lowering loan rates alone did not improve our export situation -- we still needed EEP to recover volume and bad weather to recover value. We do not believe that raising loan rates alone will cause disaster for the one-quarter of agriculture's cash receipts that come from exports. On the contrary, we believe that low prices are the problem, not the solution. Loan rates should be raised to current market price levels or, at the very least, the Findley provision should be repealed.

Low world prices have affected other nations as well. Subsidy wars have cost industrialized nations dearly. Heavily indebted third world nations have plowed up acres of rainforests and diverted land that should be growing food for domestic consumption, in order to grow export commodities to earn foreign exchange. As the price goes down, they have to produce more.

Another cost-saving measure for farm programs would be to target programs to reach only the intended beneficiaries. Farmers Union supports targeting program benefits to the level of production of mid-sized family farms -- those which are too big for off-farm employment to be the primary source of gross income, yet are too small to have individual bargaining power in the marketplace. A family farm is one which is owned and operated by a farm family, with the family providing most of the labor needed for the farming operation, assuming the economic risk, making most of the management decisions, and depending primarily on farming for a living.

Farmers Union would prefer a targeting plan that concentrates on supporting the family farm system of agriculture over a plan that calls for supporting a percentage of all farmers' production. The financial resources that existed when the farm bill was debated in 1985 simply do not exist today. We recognize that the targeting line is harder to draw as we suggest it, but we believe that taxpayers are not interested in continuing to support large corporate farms on the one hand or small hobby farms on the other.

We believe that the concept of targeting should be carried through other programs as well, for example, crop insurance premium subsidies. If only a family farm sized level of production were eligible for a premium subsidy, then subsidy levels could be increased -- or at least made consistent across coverage levels -- without additional budget exposure. Producers of larger than family farm sized operations are in a better position to negotiate coverage costs, and do not need premium subsidies to the extent that smaller accounts do.

Farmers Union has been extremely supportive of crop insurance over the years. However, we cannot advocate an end to disaster programs until more coverage is available on more crops in more places. While we believe there is a role for disaster relief, we would prefer to see some type of permanent, predictable disaster provisions included in the farm bill, rather than handle disasters on an ad hoc basis. The challenge is to provide that predictability without discouraging participation in crop insurance.

The purpose of disaster programs has been to help farmers recover lost income, so they can continue to pay their debts. In the 1988 legislation, for example, advance deficiency payments were forgiven, disaster payments were based on projected yield, producers who had crop insurance could also receive disaster payments up to 100 percent of their anticipated income, etc. For crop insurance to ultimately replace disaster programs, there must be at least one catastrophic coverage option that performs the same function of providing for lost income. In other words, crop insurance that just recoups planting costs isn't good enough in a disaster year; a producer must at least be able to recoup total costs of production, including land and family living expenses, minus harvesting and storage costs saved.

We would recommend establishing a permanent catastrophic loss pool within the Federal Crop Insurance Corporation, to be funded using the same tool as last year's disaster relief legislation and this year's House bill, H.R. 2467. Deficiency payment savings, achieved when market prices rise due to a smaller crop, should be set aside for catastrophic crop insurance payments. I would stress that these payments should go only to those producers who purchased available crop insurance. This would be a budget-neutral way of supplementing regular crop insurance that, unlike piecemeal disaster programs, would provide an incentive to participate in crop insurance.

Farmers Union would also recommend increasing available coverage by offering higher yield options. Our policy statement calls for options of 60, 70, or 80 percent of actual production history.

Better coordinating crop insurance and commodity program sign-ups could provide a triple benefit. It could substantially increase the risk pool for crop insurance, allowing premium rates to decrease. It could serve as an incentive to participate in the commodity programs, which could further other policy goals. And, it could streamline program administration by allowing a farmer to certify acreage, yield, conservation compliance, etc. one time, with one sign-up. ASCS employees are already familiar with crop failures through disaster programs.

Measures to simplify farm program administration should be explored both in Congress and in USDA, although we would caution against simplifying farm programs by eliminating them. Issuing farmers "hardship checks," as Ambassador Hills described decoupling transition payments to the House Ways and Means Committee, is not the answer.

The 1990 farm bill must devote considerable attention to environmental issues and that the Food Security Act of 1985 made a good start in the area of soil conservation. Farmers Union supports the goal of reducing soil losses to tolerable levels through such tools as cross-compliance, sodbuster and swampbuster restrictions, and the opportunity for long-term land retirement in the Conservation Reserve Program (CRP).

The CRP has been successful in removing millions of acres of highly erodible land from production. Farmers Union believes that CRP eligibility should be expanded to accommodate other types of environmentally fragile land. For example, CRP could be used as a last resort for land on which the soil type is too sandy to allow any type of chemical use without leaching into groundwater, and for which non-chemical alternatives aren't feasible. Since there is plenty of "room left" within the original 45 million acres, we do not believe that it is necessary to increase the overall or per county acreage caps at this time.

We are deeply concerned about Secretary Yeutter's statement to the effect that we should look for alternatives to the CRP because of its cost and our current tight supplies. Farmers Union believes that land currently enrolled in the CRP probably should not have been farmed in the first place and, like many others, we would be slow to endorse a plan to bring that land back into production. Tight supplies this year are the result of a drought last year, not some long-term change in American agriculture's ability to overproduce. On the question of cost, there is really no basis for comparison unless one can estimate the "value" of our soil resources. Farmers Union believes that payments made under CRP contracts have been good investments -- provided that the land stays in some soil-conserving use when the contract expires.

There are any number of creative ways to deal with land that will be coming out of CRP in the next few years. Anything, from establishing a youth conservation team to give rural young people summer jobs planting trees, to breaks in establishing commodity bases for beginning farmers who agree to leave CRP land in conserving uses, to even providing estate tax incentives for long-term easements, is worth exploring.

As we move into the conservation plan implementation stage, the need for a fully staffed and funded Soil Conservation Service (SCS) is becoming crucial, as is the need for cost-sharing conservation measures. We urge the Committee to preserve the role of the SCS employees as helpful technical advisors, and not "program police." The number of environmental challenges and farmers' needs for information have never been greater. We cannot afford to risk the relationship of trust that has grown over the years between farmers and the SCS.

The 1985 conservation provisions were a good first step, but the time has come to move beyond a separate title tucked in the back of a bill toward making commodity programs more compatible with our environmental goals, both for soil and water. Surely, we should not set up programs that discourage crop rotations. But, we urge you to reject decoupling as an answer. Decoupling farm program payments from commodity production will take billions out of the farm economy by devaluating assets and forcing prices lower, and will require farmers to produce more in order to meet fixed costs. Farmers will overproduce on all of their land instead of some of it, collectively driving prices still lower. When an individual farmer couldn't expand anymore and dropped out, his land would be purchased by another still-expanding farmer and kept in production.

What makes the cross-compliance, sodbuster, and swampbuster provisions effective -- and even Secretary Yeutter has hailed them as a major advancement -- is the fear of losing program benefits. If program benefits are removed anyway, we are virtually guaranteed that marginal lands will be kept in production. In addition, the options for new stewardship incentives are substantially diminished.

Farmers Union believes that a far better alternative to decoupling is to work within existing programs, and we would recommend three basic areas of change. First, simply making payments based on units of production instead of acreage would not only allow USDA to predict program costs with a greater degree of certainty, it would also allow farmers to farm using crop and field rotations that make sense for their operation. Being paid a fair price on a specified amount of production would allow farmers to lower their variable costs by using more of their fixed land assets.

A second change would be to allow producers a one-time opportunity to prove actual yield. This would attract higher producers into the program, and therefore into cross-compliance.

Third, farmers should be able to enter into long-term rotations with such crops as alfalfa or legumes without violating sodbuster requirements and without losing base in their primary commodity. Along this line, we would support multi-year set-asides to allow time to establish vegetative cover crops.

While water protection has generally been left to the states through the Clean Water Act and other water quality legislation, we believe that the federal government can help. We hope that President Bush's commitment to water quality takes shape in the form of research and education funds. It is time for agriculture to address the actual role it plays in contributing nitrates and pesticides to our groundwater supplies, but there is still too much we don't know about such issues as how chemicals travel through soil and what can be done to clean up groundwater once it is polluted. We need the research and outreach to farmers that will allow for a balance between incentives and penalties, conservation goals and production needs.

We need to develop practical low-input and non-chemical alternatives for more commodities, not just to protect groundwater and lower farm input costs, but to decrease the potential for pesticide residues remaining in our food. American consumers are worried about the safety of their food supply, and much of that is due to pesticides. As advocates for American agriculture, we should all address consumer concerns, not just by telling them that their food is safe, but by showing them what we're doing to make sure the food supply is safe. We need a fully staffed Food Safety and Inspection Service. We need close cooperation among USDA, the Environmental Protection Agency and the Food and Drug Administration. We need a farm bill that demonstrates a commitment to sustainability.

Attached to my testimony are copies of two dairy product impoundment lists, obtained from the Food and Drug Administration by the Farmers Union Milk Marketing Cooperative. The lists reveal a variety of food safety problems, even among the small percentage of imported products actually inspected. Safety violations include traces of pesticides banned for use in the U.S. The agreement reached by GATT negotiators in Geneva intends not only to drastically increase imports of agricultural products, it also claims that signatory nations will "harmonize" their health and safety standards. We are concerned that harmonization will mean lowering our safety standards at the same that import levels rise.

Farmers Union is deeply concerned that the United States is allowing the agricultural export "tail" to wag the domestic farm policy "dog." Exports are undeniably important to our agricultural economy, and no one can deny the effect of global supply and demand, foreign dumping practices, and the like on the success of our farm programs. But, we urge you to bear in mind throughout the development of the 1990 farm bill, that in 1980 and 1981-- the years in which our agricultural exports peaked -- exports still only accounted for about 30 percent of cash farm receipts. More than two-thirds of what kept American agriculture going came from domestic consumption. From 1950 - 1975, "normal" export levels resulted in anywhere from 10.5 - 16 percent of cash farm receipts. Since 1981, "normal" has meant 20 - 25 percent of cash farm receipts.

We also urge you to remember that exchange rates, global unemployment rates, weather, and other economic and social factors over which Congress, USDA, and our trade negotiators have no control could easily lay asunder the best laid export plans. Farm programs are, by necessity, primarily domestic policy tools, and we object to their characterization as "trade-distorting subsidies."

It was USDA's efforts to administer the domestic farm programs established in 1985 as tools of foreign policy that has caused an outward migration from Rural America and left Congress working to pass rural development legislation in an effort to revive and repopulate our rural areas. At every opportunity, prices of all commodities were driven down so that the percentage destined for export could "compete." Through commodity certificates, catalog sales, manipulation of farmer-owned reserves, and maximum use of the Findley provision to lower loan rates below legislated levels, USDA sought to recapture "our" export markets. While some export volume was recovered, it was at the expense of export value -- which has begun to catch up as world stocks have been drawn down by bad weather -- and the good will of nations that serve not only as our major competitors, but also as our largest customers.

This export-orientation also cost us in terms of farm program budgets. Secretary Yeutter suggested that taxpayers may not be willing to continue paying high levels of farm subsidies. He may be right, particularly as taxpayers realize how much of their money has gone into "recapturing" export markets. It is true that the cost of deficiency payments has gone down (especially since the drought increased market prices), but we have still spent more money on farm payments in last eight years than in the entire history of farm programs. Those payments were made to help farmers to keep paying their creditors during a time when the market value of their crop was driven down by the government. Those payments were made to multi-national grain traders, who were already posting record profits, to help them regain market share.

Surely, there were important export provisions in the Food Security Act of 1985 that were needed to take the U.S. out of the position of being the world's residual supplier and to counter the unfair trading practices of some of our competitors. But the Export Enhancement Program (EEP), which donates government stocks to American grain exporters who sell at below-market levels, has been responsible for a large majority of our wheat sales in recent years. For all of USDA's efforts to drive down prices, and all of the pain those efforts caused in our rural communities, low prices weren't enough to make our wheat competitive without these extra bonuses. The January 21, 1989 issue of ProFarmer reported that Iraq, traditionally a U.S. wheat market, actually purchased wheat from the Europeans in order to become eligible for future U.S. EEP bonuses.

We believe that EEP has gotten out of hand. This subsidy to multi-national grain traders has grown beyond the "gorilla in the closet" status that Congress envisioned in 1985. USDA's failure to understand the willingness of our competitors to fight for markets has led to a tremendous escalation of export subsidy costs. We are not suggesting that the program be abolished, because the reasons for it still exist. But we are suggesting that in times of tight budgets, all programs should share in whatever scaling back is required.

Secretary Yeutter has suggested in the past that the cure for the problem of high program costs is international negotiation. We agree. International negotiations should begin immediately in two areas. First, we must negotiate with debtor nations in the third world to reduce their debt in exchange for economic reforms that will improve their people's standard of living. The only way to build new markets for American food and fiber products is to attack poverty on a worldwide basis. Unfortunately, Secretary Yeutter's statement is completely silent on hunger issues.

Second, for existing markets, international negotiations should take place to achieve long-term agreements on agricultural production and prices, i.e., fair trade. Farmers Union has maintained since the beginning of the Uruguay round that the General Agreement on Tariffs and Trade (GATT) is not the appropriate forum for negotiations on something as unique as agriculture. Food and fiber should not be negotiated under the same terms as microchips and intellectual property. Everything from production methods to market elasticity to underlying social policies is different. The agreement reached in Geneva recently calls for a strengthened GATT regime. We would urge that, in the course of renegotiating the structure of the GATT, that the U.S. strive to have agriculture negotiated separately from the other titles.

Secretary Yeutter, has reassured the Committee that Congress was free to write a farm bill, although it would be superseded by legislation implementing GATT. He suggested that a farm bill inconsistent with the GATT agreement would be a xenophobic shot in the foot. We would never recommend that the U.S. take a position showing a fear or distrust of foreigners. What we are advocating is international negotiations to arrive at fair terms of trade, rather than free trade.

The simple fact is that there are many commodities, such as sugar and cotton, for which the U.S. is not the lowest cost producer. In a totally free market, we would eventually lose those industries. Again, agriculture is different from computers. If a factory stops producing item A, it can be retooled to produce item B. That doesn't necessarily work with farmland. Totally free trade in agriculture will cause greater depression in areas of Rural America. Deliberately putting ourselves in that situation is indeed shooting ourselves in the foot, if not amputating the entire leg.

There are several other areas which ought to be addressed in the 1990 farm bill if they cannot be resolved this year. Domestic hunger, rural development, agricultural credit -- including mediation funds -- research into industrial uses for agricultural commodities, extension service activities, grain quality standards, and reform of the Packers and Stockyards Act are just some of the other issues that will be on the table over the next 18 months. Farmers Union looks forward to working with this Committee and the Senate Committee on Agriculture, Nutrition, and Forestry to develop long-term legislation.

Thank you, Mr. Chairman. I would be happy to answer any questions you might have at this point.

ATTACHMENT -- NATIONAL FARMERS UNION 1989 STATEMENT OF POLICY

ARTICLE I
AGRICULTURAL PROGRAMS FOR THE FAMILY FARM

A. The New Long-Range Farm Program

We call upon Congress to develop a simplified and more direct program that returns to the goal of assuring producers a reasonable livelihood by providing price and income protection on a family farm level of production. The following principles need to be included in a new farm bill:

1. We support a long-term, predictable federal farm program.
2. To achieve a parity of income with our urban and suburban neighbors, we support cost of production plus a reasonable profit as the primary income goal for farmers. Program benefits should be targeted to family farms.
3. Marketing quotas and marketing certificates (supply-management based on bushels and poundage instead of acreage) should be utilized in supply- management programs, when adopted with producer participation.
4. Tiered marketing quotas, set asides, and price supports, together with realistic overall and per-program limitations should be enacted and effectively enforced on all farm program provisions so program benefits are targeted to small- and medium-sized farmers.
5. The farmer-held grain reserve program should be revised and improved so that:
    a. it functions as an "ever-normal" granary;
    b. loans are at 110 percent of the base loan rate;
    c. storage is paid to farmers at commercial rates;
    d. it includes all storable crops;
    e. immediate entry into the farmer-owned reserve should be permitted;
    f. extension of loans should be granted if market prices are below release levels at time of maturity of the reserve loan.
6. The Commodity Credit Corporation (CCC) should negotiate long-term agreements with importing nations.

NATIONAL FARMERS UNION
WORKING PAPER
1990 Farm Bill Title Outline

July 12, 1989

EXPLANATORY NOTE: In this paper, options are listed that reflect NFU's policies which were adopted at its annual meeting in March of 1989. The Board of Directors of the NFU have overseen the development of these options to ensure that they accurately portray the policies of the NFU.

While other options may also achieve the policies of the NFU, it is felt that a 1990 Farm Bill which embraces the following concepts will: preserve and protect the family size farm operation; promote environmentally safe stewardship of the land; provide for nutrition programs for the disadvantaged; and enhance the viability of rural communities.

Title 1 Family Farm (Staff contact: Mike Dunn)

Section 101: Reaffirms Congressional intent for a policy which fosters and encourages the family farm system of agriculture.

Sec. 102: Provides an overview of the remaining titles of the outline.

Sec. 103: Requirement of an annual report to Congress on the status of the family farm (using NFU's definition that a family farm is characteristically one in which a farm family owns and operates the farm, assumes the economic risk, makes most of the management decisions, and depends primarily on farming for a living.)

Sec. 104: Requirement of a report on the impact of targeting support payments to family size farms on such farms, and the resulting prices of the various commodities.

Sec. 105: Requirement of a report to Congress on the impact of supply management on the status of the family farm and commodity prices.

Title 2 Dairy and Livestock (Staff contact: Cheryl Cook)

Subtitle A Dairy Product Stabilization

Sec. 201: Establish a long-term supply management program which improves family farm income through a two-tiered pricing structure, assures stable supplies of milk and milk products, lowers government costs, and simplifies program administration.

Sec. 202: Establish marketing bases for individual producers, based on their recent production patterns and establish an order of priority for additional base allocation when demand warrants expansion.

Sec. 203: Require the Secretary to establish production goals that meet national demand, including commodity distribution programs and other commitments.

Sec. 204: Establish price support levels at 75% of parity for the base tier.

Sec. 205: Authorize the Secretary to assess surplus beyond base marketings to arrive at a price not greater than 25% of parity, using the money to offset costs of CCC activities.

Subtitle B Milk Marketing Orders

Sec. 211: Consolidation of Orders

(a) The Secretary would be given 3 months from the date of enactment to hold public hearings in each existing marketing order on the issue of consolidation for economic efficiency.

(b) Within 6 months from the date of enactment, the Secretary would be directed to publish proposed rules outlining a plan for consolidation to no more than 10 marketing orders in the Federal Register for public comment.

(c) The Secretary would have until one year after the date of enactment to implement the plan.

Sec. 212: Administrators would be required to hold at least two public hearings per year, through which to gather information from producers, processors, and consumers that the Secretary can use in helping to establish production needs.

Sec. 213: (a) The current Class I differential would be repealed. In its place, each of the ten orders, through the hearing process, would be allowed to establish whatever Class I differential might be needed to achieve desired utilization rates.

(b) The current system of distance differentials would also be repealed. In its place, each of the ten marketing orders would be allowed to establish a central basing point within the order, from which to add any distance differentials that might be needed to move milk.

Subtitle C   Livestock Product Stabilization

Sec. 221: (a) This subsection would establish a standby meat purchase program, for use only if a natural disaster, e.g. a drought, becomes so severe that livestock producers begin liquidating foundation herds.

(b) This subsection would establish a standby beef purchase program, for use only if bovine somatotropin (i.e., bovine growth hormone or BGH) is approved for commercial use and its use results in significantly higher numbers of dairy cows being culled to the extent that the beef market is threatened.

Sec. 222: The Secretary would be directed as to when purchases should be made. Purchased meat would be distributed through commodity distribution programs.

Subtitle D   Amendments to the Packers and Stockyards Act of 1920

Sec. 231: This section would make necessary adjustments to the Packers and Stockyards Act to protect livestock producers from unfair competition and monopolistic practices by strengthening enforcement provisions and discouraging mergers resulting in excess concentration. In addition the Illinois Brick decision, which denied standing for suits challenging indirect damages due to monopolistic practices, would be legislatively overturned.

Subtitle E   Dairy and Livestock Product Imports

Sec. 241: Import quantity (This section is being held open until more is known on the outcome of the Uruguay round of the General Agreement on Tariffs and Trade.)

Sec. 242: Import quality and inspections (also open pending "harmonization" of health and safety standards in GATT).

Title 3 Wheat and Feedgrains (Staff Contact: Howard Lyman)

Subtitle A: Wheat

Sec. 301: To establish a voluntary program which: improves farm income; reduces government costs through higher market prices and targeted program benefits; and recognizes that demand includes an adequate reserve supply.

Sec. 302 et seq.: Voluntary supply management program, using an ARP based on domestic, export, and reserve needs. Payments should be based on total bushels, rather than acreage. Producers should be given the opportunity to prove their actual yields. Effective loan rates should be raised and repeal the Findley amendment. There should be a cap on the total amount of loans and target deficiency available to an individual producer. Provision should be made for a strategic reserve, with any farmer-owned reserve storage payments paid at the same rate as commercial storage. The program would have a cap on target deficiency payments. When a producer elects to stay out of the program one year he must stay out the following year with a loss of 10% base per year.

Subtitle B: Feedgrains

Sec. 401: To establish a voluntary program which: improves farm income; reduces government costs through higher market prices and targeted program benefits; and recognizes that demand includes an adequate reserve supply.

Sec. 402 et seq.: Voluntary supply management program, using an ARP based on domestic, export, and reserve needs. Payments should be based on total bushels, instead of acreage. Producers should be given the opportunity to prove their actual yields. Effective loan rates should be raised and repeal the Findley amendment. There should be a cap on the total amount of loans and target deficiency available to an individual producer. Traditional price relationships among grains need to be recomputed to avoid artificially over encouraging one commodity, e.g. corn, over another, e.g. soybeans. A strategic reserve should be established, with farmer-owned reserve storage payments paid at the same rate as commercial storage. When a producer elects to stay out of the program one year he must stay out the following year with a loss of 10% base per year.

Subtitle C: Effective Dates and conforming amendments

Title 4 Cotton (Staff Contact: Howard Lyman)

Sec. 401: (a) Reauthorize the marketing loan established by the Food Security Act of 1985, with loan rates raised to the target price.

(b) Establish a paid set-aside price and a paid diversion.

(c) Establish a strategic reserve with a farmer-owned reserve beyond an 8-month loan extension.

Title 5 Oilseeds and Dry Edible Beans (Staff Contact: Howard Lyman)

Sec. 501: Establish a stabilization program for oilseed crops and dry edible beans similar to the programs for wheat and feedgrains.

Title 6 Wool and Mohair (Staff Contact: Howard Lyman)

Sec. 601: Reauthorize the program established by the Food Security Act of 1985.

Title 7 Rice (Staff Contact: Howard Lyman)

Sec. 701: (a) Reauthorize the marketing loan established by the Food Security Act of 1985, with loan rates raised to the target price.

(b) Require the Secretary to make program announcements for the forthcoming year on or before November 1.

Sec. 702: Authorize additional use of rice in the commodity distribution programs, including school lunch.

Title 8 Peanuts (Staff Contact: Howard Lyman)

Sec. 801: Reauthorize the program put in place by the Food Security Act of 1985.

Title 9 Sugar (Staff Contact: Howard Lyman)

Sec. 901: Reauthorize the program put in place by the Food Security Act of 1985.

Title 10 General Commodity Provisions (Staff Contact: Howard Lyman)

Sec. 1001: To discourage the use of any Presidential waiver of Section 22 or other unfair trade practice remedies which might be authorized under the Canadian Free Trade Agreement or the General Agreement on Tariffs and

Trade, with automatic reversion to a fall-back program.

Suggested options could be patterned after current law requiring full parity prices in the event of an embargo. The option would be crafted to avoid encouraging an even greater flood of imports into the country. For example, waiver of Section 22 for a particular commodity could trigger mandatory cutbacks in domestic production and rollbacks in import quotas of the same percentage, or it could trigger a standby government purchase program.

Title 11 FCIC & General Disaster Provisions

(Staff Contact: Cheryl Cook)

Sec. 1101: Statement of purpose regarding improvements to the federal crop insurance program to make it more attractive to producers and to decrease dependence on government relief bills when a natural disaster strikes.
Sec. 1102: (a) Amend the Agricultural Act of 1949 to create a permanent catastrophic coverage pool within FCIC, to which the Secretary would be required to divert funds "saved" from deficiency payments when market prices increase due to natural disaster.

(b) For producers of commodities for which crop insurance is available, only those who purchased the crop insurance would be eligible for catastrophic payments in the event of disaster (defined as a crop loss in excess of 35%).

Sec. 1103: (a) Require the Secretary to offer a price election that at least covers variable costs of production.

(b) Offer, at least on a trial basis, a price election to cover full costs of production.

Sec. 1104: Offer, at least on a trial basis, a higher yield option than currently available to allow producers to better protect themselves in the event of disaster.

Sec. 1105: (a) Make premium subsidy levels consistently 30% across all coverage options and provide for a temporary subsidy increase where necessary to attract participation.

(b) Target premium subsidies to a family farm sized level of production, to allow for changes recommended in (a) without increasing budget exposure.

Sec. 1106: Provide for better coordination of administrative functions such as acreage certifications, conservation compliance, etc. between ASCS and FCIC.

Sec. 1107: Require the Secretary to offer named peril coverage for commodities for which multi-peril coverage is not available.

Title 12 Trade and Development (Staff Contact: Bob Denman)

Sec. 1201: (a) Direct the President to convene negotiations of exporting and importing nations on either a single or multi-commodity basis to develop a General Agreement on Agricultural Production and Prices to encourage world economic growth rates, augment food buying power of world citizens, and to foster and encourage family farm agriculture around the world.

(b) Elements of the GAPP should include the following:

(1) negotiated rules on the broad sharing of the cost of maintaining of world grain and food reserves and their use as needed;

(2) negotiated rules on the share of the burden of adjustments in farm production if it far exceeds commercial, social or development needs, after all reasonable efforts have been made to satisfy nutritional needs;

(3) and rules to establishment a desirable price range for food commodities that will be fair to producers and consumers and to achieve the linkage of those commodity prices to an index of manufactured good prices as soon as practicable.

Sec. 1202: (a) Reauthorize the export credit programs of the Food Security Act of 1985

(b) Sunset the targeted export assistance program and other special export promotion programs designed to buy-down the cost of U.S. exports to meet foreign export subsidies immediately upon successful negotiation of the GAPP.

Sec. 1203: (a) Reauthorize P.L. 480 Title I sections of the Food Security Act of 1985.

(b) Reauthorize P.L. 480 Title II sections of the Food Security Act of 1985.

(c) Reauthorize P.L. 480 Title III sections of the Food Security Act of 1985, with a revision raising the minimum share of P.L. 480 Title I funds allocated for the Title III (Food for Development) to 15% from the 10% level set in the 1985 Act.

Sec. 1204: Reauthorize the contract sanctity provisions of the Food Security Act of 1985.

Title 13 Marketing (Staff Contact: Bob Denman)

Sec. 1301: Reauthorize marketing order language of the Food Security Act of 1985.

Sec. 1302: Reauthorize appropriate sections of the Food Security Act of 1985 dealing with grain standards.

Title 14 Research and Extension (Staff Contact: Bob Denman)

Sec. 1401: Statement of purpose regarding the proper direction of publically-funded agricultural research to: benefit mid-size family farmers instead of giant corporate operations; to build demand for commodities through the development of new uses; and to assist in revitalizing rural economies.

Sec. 1402: Require additional emphasis on research in areas beyond increasing production, including, but not limited to:

(a) Research into new uses for agricultural products, such as ethanol and other alternative energy sources, polymers made from corn starch, economic domestically produced casein in glues and paints, etc.

(b) Research on the environmental impacts of chemically intense agriculture.

(c) Research on non-chemical alternatives, such as integrated pest management.

(d) Research to update past work on economies of scale.

(e) Research on the economic and social impact of new technologies.

(f) Research on global warming trends and the impact on traditional farming practices.

(g) Research on animal husbandry practices, including the impact biogenetics.

(h) Research to improve crop quality.

Sec. 1403: Reauthorize necessary portions of the Food Security Act of 1985, with a change making the annual report on the status of family farms a part of permanent law.

Title 15 Domestic Hunger (Staff Contact: Mike Dunn)

Subtitle A: Food Stamps

Sec. 1501: Major program simplification.

Sec. 1502: Redefine a "household" to make it easier for otherwise homeless families to share residences and still get on food stamps.

Sec. 1503: Provide an income disregard for the first $50 of child support payments which will encourage the payment of child support by absent parents (and would be consistent with Aid to Families with Dependent Children program).

Sec. 1504: Improve the employment and training program, so that persons are sufficiently trained so that they can find decent employment.

Subtitle B: Commodity Distribution Programs

Sec. 1511: Extend the authorization for the Temporary Emergency Food Assistance Program.

Sec. 1512: Authorize $50 million to cover state administrative costs for handling the USDA commodity (extends the current $50 million level).

Sec. 1513: Repeat the commodity purchase program if surpluses do not build up over time. (Hunger Prevention Act required USDA to buy $120 million of high protein commodities for TEFAP for each of two years).

Subtitle C: Nutrition and Miscellaneous Provisions

Sec. 1521: Reauthorize any of the Child Nutrition Programs (for example, School Lunch Program, School Breakfast Program, Child Care Food Program, Summer Feeding Program and WIC) which do not get reauthorized in 1989.

Subtitle D: Nutrition Education

Sec. 1531: Increase Extension Service efforts regarding nutrition education and provide additional funding for other nutrition education programs.

Title 16 Agricultural Resource Protection (Staff Contact: Cheryl Cook)

Subtitle A: Soil Conservation

Sec. 1601: Continue sodbuster and swampbuster as a part of the cross compliance provisions, i.e. a farmer must have a conservation plan in place before breaking out highly erodible land or wetlands.

Sec. 1602: Clarify that alternative conservation systems are to be offered by local officials in exceptional cases, rather than provided as a matter of course. Reaffirm the goal of striving for tolerable soil loss levels (T).

Subtitle B: Water Quality

Sec. 1611: Statement of purpose to establish the protection of groundwater resources and health of those who rely on groundwater for drinking water as national priorities; to identify areas in which information is lacking; to establish a balanced approach of incentives for better water stewardship and penalties for water pollution; to recognize the appropriate role of state governments in protecting their citizens; and to provide states with adequate resources to enforce water quality initiatives.

Sec. 1612: Establish a welltesting program, through which a producer may ask USDA to test his well(s) for suspected contaminants. USDA would have to do the testing, but cost-sharing would be contingent upon the producer's willingness to share the test results with USDA for the sake of developing a national database.

Sec. 1613: Where testing revealed water quality problems, several things should happen, depending on the severity of the contamination. In all cases, some type of monitoring should be triggered to keep an eye on if and how the contamination spreads. In more severe cases, producers should be given 5 years to develop a water quality plan and 10 years to get in place (the same time frames given program participants for soil conservation plans). USDA technical assistance and cost-sharing would be made available, as it was for the development of soil conservation plans. After ten years, producers failing to get their act together would be turned over to OGC for collection of liquidated damages

Sec. 1614: Eligibility for enrollment in the Conservation Reserve Program would be expanded to cover other types of environmental problems. With the exceptions of water quality problems identified under Sec. 1613, and wetlands identified under Sec. 1615, decisions about what types of risk ought to make land eligible for CRP should be up to the Secretary.

Sec. 1615: Establish a "no net loss" policy on wetlands, and authorizes use of CRP for wetlands protection.

Sec. 1616: Preserve the rights of states to establish stricter standards for water quality.

Sec. 1617: Establish a program to provide matching funds to states to help them with existing water quality programs that will generate necessary data on groundwater contamination.

Sec. 1618: Establish a pilot program for the purpose of identifying abandoned wells using Green Thumb, Inc., and other senior employment programs.

Title 17 Agricultural Credit and Rural Development

Subtitle A: Agricultural Credit (Staff Contact: Cheryl Cook)

Sec. 1701: Extend authorization for mediation matching funds until the original $30 million authorization figure in the Agricultural Credit Act has actually been appropriated;

Sec. 1702: Redirect FmHA lending back toward direct insured loans, rather than guaranteed loans.

Sec. 1703: Expand the pilot project established in the Agricultural Credit Act, which has sought to help FmHA eligible borrowers purchase FCS inventory land, to all System districts rather than just those which have received financial assistance.

Sec. 1704: Extend the socially-disadvantaged outreach provisions in the Agricultural Credit Act.

Sec. 1705: Clarify what an FmHA borrower must provide to his lender within 45 days after receiving the Notice of Loan Servicing Availability.

Sec. 1706: Establish a borrower's private right of action against his Farm Credit System lender, and include recovery of legal fees for successful litigants.

Subtitle B: Rural Development (Staff Contact: Mike Dunn)

Sec. 1711: Reaffirm a Rural Development Act that should be passed in 1989. Such an Act would be an omnibus rural development act that would keep USDA as the lead Department for rural development, but would require coordination and cooperation with other Federal, State, and Local agencies. It would be comprehensive and include such areas as health, transportation, credit, education, telecommunications, human resources development (job training, increasing literacy) and capital investment in local enterprises.

Title 18 Miscellaneous

Sec. 1801: Authorize a study on water quantity, global warming, and other timely environmental issues.

Sec. 1802: Authorize a study on what state research projects might be underway which could complement the suggestions offered in title 14.

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COMPLETED
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DEPARTMENT OF
HEALTH AND HUMAN SERVICES
Food and Drug Administration
Washington, D.C. 20204

MONTHLY IMPORT DETENTION LIST

Report 87-04

Detention for April 1, 1937 to April 30, 1987

ORIGINAL

BEST COPY AVAILABLE

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                      IMPORT DETENTION MONTHLY REPORT
SAMPLE#   PAC                                   MFR'S/SHPR'S NAME
PRODUCT CODE               QUANTITY             MFR'S/SHPR'S CITY
PRODUCT                    UNIT TYPE            MFR'S/SHPR'S COUNTRY
PORT OF ENTRY              DIST OF ENTRY        PRIMARY REASON
COUNTRY OF ORIGIN          DET DATE/AMND        SECONDARY REASON
MAIL ENTRY                 AUTO DETENTION
        ******************************************************
#852430                                         MERLO
12AGG56                              51.00      UNKNOWN
CHEESE, CRAVET PURA        POUNDS               FRANCE
NEW YORK, NY               BROOKLYN             INADEQUATE PASTEURIZATION
FRANCE                      4- 6-87             NO REASON ENTERED
NO                         NO
        ------------------------------------------------------
#852431                                         MERLO
12AGG56                             119.00      UNKNOWN
CHEESE/NUOVO BIANCO        POUNDS               FRANCE
NEW YORK, NY               BROOKLYN             INADEQUATE PASTEURIZATION
FRANCE                      4- 6-87             NO REASON ENTERED
NO                         NO
        ------------------------------------------------------
#852432                                         MERLO
12AGG56                             170.00      UNKNOWN
CHEESE, TALEGGIO           POUNDS               FRANCE
NEW YORK, NY               BROOKLYN             INADEQUATE PASTEURIZATION
FRANCE                      4- 6-87             LISTERIA/OTHER PATHOGENS
NO                         NO
        ------------------------------------------------------
#852433                                         MERLO
12AGG56                             103.00      UNKNOWN
CHEESE, CAPRINI            POUNDS               FRANCE
NEW YORK, NY               BROOKLYN             INADEQUATE PASTEURIZATION
FRANCE                      4- 6-87             LISTERIA/OTHER PATHOGENS
NO                         NO
        ------------------------------------------------------
#852434                                         MERLO
12AGG56                              54.00      UNKNOWN
CHEESE/ITALICO ALPI        POUNDS               FRANCE
NEW YORK, NY               BROOKLYN             INADEQUATE PASTEURIZATION
FRANCE                      4- 6-87             LISTERIA/OTHER PATHOGENS
NO                         NO
        ------------------------------------------------------
#852435                                         ST. HUBERT
12AGG56                             160.00      UNKNOWN
CHEESE, SOFT RIPENED       POUNDS               FRANCE
NEW YORK, NY               BROOKLYN             LISTERIA/OTHER PATHOGENS
FRANCE                      4- 7-87             NO REASON ENTERED
NO                         NO
        ------------------------------------------------------
#852436                                         ST. HUBERT
12AGG56                          85,250.00      UNKNOWN
CHEESE, SOFT RIPENED       POUNDS               FRANCE
NEW YORK, NY               BROOKLYN             POISONOUS/DELETERIOUS SUB-N.E.C.
FRANCE                      4- 7-87             LISTERIA/OTHER PATHOGENS
NO                         NO
        ------------------------------------------------------
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                    IMPORT DETENTION MONTHLY REPORT
 SAMPLE#   PAC                                     MFR'S/SHPR'S NAME
 PRODUCT CODE                    QUANTITY          MFR'S/SHPR'S CITY
 PRODUCT                         UNIT TYPE         MFR'S/SHPR'S COUNTRY
 PORT OF ENTRY                   DIST OF ENTRY     PRIMARY REASON
 COUNTRY OF ORIGIN               DET DATE/AMND     SECONDARY REASON
 MAIL ENTRY                      AUTO DETENTION
         *******************************************************
 #852448                                           MERLO
 12AGG56                                 79.00     UNKNOWN
 CHEESE, NUOVO BIANCO            POUNDS            FRANCE
 NEW YORK, NY                    BROOKLYN          INADEQUATE PASTEURIZATION
 ITALY                            4-21-87          NO REASON ENTERED
 NO                              NO
         -------------------------------------------------------
 #852449                                           MERLO
 12AGG56                                 33.00     UNKNOWN
 CHEESE, CAPRINI                 POUNDS            FRANCE
 NEW YORK, NY                    BROOKLYN          INADEQUATE PASTEURIZATION
 ITALY                            4-21-87          NO REASON ENTERED
 NO                              NO
         -------------------------------------------------------
 #852428                                           COOP ALLEVATORI
 12AGG99                                  7.00     SALERNITINI
 CHEESE, PROVOLE                 POUNDS            ITALY
 NEW YORK, NY                    BROOKLYN          INADEQUATE PASTEURIZATION
 ITALY                            4- 6-87          NO REASON ENTERED
 NO                              NO
         -------------------------------------------------------
 #600286                                           DEXPA
 12AGP19                                 50.00     PARIS
 CHEESE, RACLETTE                POUNDS            FRANCE
 BOSTON, MA                      BOSTON            NOT LABELED IN ENGLISH
 FRANCE                           3-25-87          NO REASON ENTERED
 NO                              NO
         -------------------------------------------------------
 #768895                                           BRIKA
 12AGP19                             42,900.00     UNKNOWN
 CHEESE, PECONINO                POUNDS            ITALY
 NEW YORK, NY                    BROOKLYN          RODENT FILTH/DAMAGE
 ITALY                            4- 9-87          ANIMAL FILTH/DAMAGE-NEC
 NO                              NO
         -------------------------------------------------------
 #600147                                           UNKNOWN
 12AGP52                              8,004.00     UNKNOWN
 CHEESE, SOFT                    UNITS             FRANCE
 BOSTON, MA                      BOSTON            MOLD
 FRANCE                           3-31-87          NOT LABELED IN ENGLISH
 NO                              NO
         -------------------------------------------------------
 #838025                                           GIROD
 12AGP56                                165.00     UNKNOWN
 CHEESE/TOURREE DEL              POUNDS            FRANCE
 NEW YORK, NY                    BROOKLYN          LISTERIA/OTHER PATHOGENS
 FRANCE                           4-28-87          NO REASON ENTERED
 NO                              NO
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COMPLETED

HE 20.4017 : 86-11

DEPARTMENT OF

HEALTH AND HUMAN SERVICES

Food and Drug Administration

Washington, D.C. 20204

MONTHLY IMPORT DETENTION LIST

Report 86-11

Detention for November 1, 1986 to November 30, 1986

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                         IMPORT DETENTION MONTHLY REPORT

SAMPLE#                                              MFR"S/SHPR"S NAME
PRODUCT CODE                 QUANTITY                MFR"S/SHPR"S CITY
PRODUCT                      UNIT TYPE               MFR"S/SHPR"S COUNTRY
PORT OF ENTRY                DIST OF ENTRY           PRIMARY REASON
COUNTRY OF ORIGIN            DET DATE/AMND           SECONDARY REASON
MAIL ENTRY                   AUTO DETENTION
           ****************************************************
#836005                                              FROMAGERIE
12AGG56                                  57.00       UNKNOWN
CHEESE, TROUPADOUR           POUNDS                  FRANCE
NEW YORK, NY                 BROOKLYN                LISTERIA/OTHER PATHOGENS
FRANCE                       11-20-86                NO REASON ENTERED
NO                           NO
           ----------------------------------------------------
#836006                                              FROMAGERIE
12AGG56                                 444.00       SOULIE
CHEESE, ST. ANDRE            POUNDS                  FRANCE
NEW YORK, NY                 BROOKLYN                LISTERIA/OTHER PATHOGENS
FRANCE                       11-20-86                NO REASON ENTERED
NO                           NO
           ----------------------------------------------------
#836007                                              SAINT HUBERT
12AGG56                                 576.00       UNKNOWN
CHEESE, BRIE                 POUNDS                  FRANCE
NEW YORK, NY                 BROOKLYN                LISTERIA/OTHER PATHOGENS
FRANCE                       11-20-86                NO REASON ENTERED
NO                           NO
           ----------------------------------------------------
#836008                                              SAINT HUBERT
12AGG56                                  39.00       UNKNOWN
CHEESE, COULOMMIERS          POUNDS                  FRANCE
NEW YORK, NY                 BROOKLYN                LISTERIA/OTHER PATHOGENS
FRANCE                       11-20-86                NO REASON ENTERED
NO                           NO
           ----------------------------------------------------
#836009                                              SAINT HUBERT
12AGG56                                  27.00       UNKNOWN
CHEESE/MARQUIS DE            POUNDS                  FRANCE
NEW YORK, NY                 BROOKLYN                MFRED OR HELD UNDER INSANITARY CON
FRANCE                       11-21-86                NO REASON ENTERED
NO                           NO
           ----------------------------------------------------
#836010                                              SAINT HUBERT
12AGG56                                 113.00       UNKNOWN
CHEESE/MARQUIS DE CR         POUNDS                  FRANCE
NEW YORK, NY                 BROOKLYN                MFRED OR HELD UNDER INSANITARY CON
FRANCE                       11-21-86                NO REASON ENTERED
NO                           NO
           ----------------------------------------------------
#836011                                              SAINT HUBERT
12AGG56                                  46.00       UNKNOWN
CHEESE, MARAVIS              POUNDS                  FRANCE
NEW YORK, NY                 BROOKLYN                MFRED OR HELD UNDER INSANITARY CON
FRANCE                       11-21-86                NO REASON ENTERED
NO                           NO
           ----------------------------------------------------
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                    IMPORT DETENTION MONTHLY REPORT

SAMPLE#                                           MFR"S/SHPR"S NAME
PRODUCT CODE              QUANTITY                MFR"S/SHPR"S CITY
PRODUCT                   UNIT TYPE               MFR"S/SHPR"S COUNTRY
PORT OF ENTRY             DIST OF ENTRY           PRIMARY REASON
COUNTRY OF ORIGIN         DET DATE/AMND           SECONDARY REASON
MAIL ENTRY                AUTO DETENTION
       ****************************************************
#771714                                           VARU
12AGP19                           30,800.00       BREM
CHEESE, FETA              POUNDS                  GERMANY,FEDERAL REP OF
NEW YORK, NY              BROOKLYN                PESTICIDE-BHC
GERMANY,FEDERAL REP       11-10-86                PESTICIDE-LINDANE
NO                        NO
       ----------------------------------------------------
#786406                                           DANZAS DENREES
12AGP52                               11.00       THIAIS'
CHEESE, PRESCO            POUNDS                  FRANCE
NEW YORK, NY              BROOKLYN                POISONOUS/DELETERIOUS SUB-N.E.C.
FRANCE                    11-24-86                LISTERIA/OTHER PATHOGENS
NO                        NO
       ----------------------------------------------------
#786407                                           DANZAS DENREES
12AGP52                               12.00       THIAIS
CHEESE, CASTRAGNETTO      POUNDS                  FRANCE
NEW YORK, NY              BROOKLYN                POISONOUS/DELETERIOUS SUB-N.E.C.
FRANCE                    11-24-86                LISTERIA/OTHER PATHOGENS
NO                        NO
       ----------------------------------------------------
#786408                                           DANZAS DENREES
12AGP52                               11.00       THIAIS
CHEESE, BIOCCOLINO        POUNDS                  FRANCE
NEW YORK, NY              BROOKLYN                POISONOUS/DELETERIOUS SUB-N.E.C.
FRANCE                    11-24-86                LISTERIA/OTHER PATHOGENS
NO                        NO
       ----------------------------------------------------
#786409                                           DANZAS DENREES
12AGP52                                6.00       THIAIS
CHEESE, NOCI              POUNDS                  FRANCE
NEW YORK, NY              BROOKLYN                POISONOUS/DELETERIOUS SUB-N.E.C.
FRANCE                    11-24-86                LISTERIA/OTHER PATHOGENS
NO                        NO
       ----------------------------------------------------
#786410                                           DANZAS DENREES
12AGP52                               16.00       THIAIS
CHEESE, BASILICO          POUNDS                  FRANCE
NEW YORK, NY              BROOKLYN                POISONOUS/DELETERIOUS SUB-N.E.C.
FRANCE                    11-24-86                LISTERIA/OTHER PATHOGENS
NO                        NO
       ----------------------------------------------------
#786411                                           DANZAS DENREES
12AGP52                               16.00       THIAIS
CHEESE, PISTACCHI         POUNDS                  FRANCE
NEW YORK, NY              BROOKLYN                POISONOUS/DELETERIOUS SUB-N.E.C.
FRANCE                    11-24-86                LISTERIA/OTHER PATHOGENS
NO                        NO
       ----------------------------------------------------
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merican agriculture MOVEMENT INC
America Needs Parity!

American Agriculture Movement, Inc.
100 Maryland Ave., N.E., Suite 500A, Box 69, Washington, D.C. 20002
(202) 544-5750

Testimony of

HARVEY JOE SANNER, PRESIDENT
AMERICAN AGRICULTURE MOVEMENT, INC.

Before the Committee on Agriculture
U.S. House of Representatives

June 12, 1989

Strength From The Land

Thank you, Mr. Chairman. I am Harvey Joe Sanner, President of the American Agriculture Movement. AAM is a general farm organization which represents farmers producing a wide variety of commodities in 32 states. Thank you for the opportunity to be here today to share my organization's ideas on the 1990 farm bill.

Many things have changed since hearings were held on the Food Security Act of 1985. Stocks of many commodities have been drawn down by last year's drought. Market potential in the Soviet Union has increased tremendously, while talk of an embargo to China is uppermost in many of our members' minds. Many marginal acres of land have been taken out of production through the Conservation Reserve Program. And, there are many fewer farmers now than there were five years ago.

But, for all of the changes over the last five years, several things remain the same. One thing that has not changed is AAM's commitment to the idea that every producer should have the chance to earn a fair living from the marketplace, with agricultural prices that cover the cost of production. A second thing that continues from 1985 is the unfortunate insistence by some in our government that the only valid goal for international relations is absolute free trade. Third, concern over the environmental impact of how we produce food is steady, and even growing beyond soil erosion into such areas as groundwater. My testimony today will focus on these three topics from AAM's perspective.

Commodity Prices

To improve farmers' chances of recovering their costs of production and to lower government costs due to deficiency payments, AAM believes there must be a new approach to farm policy. Our price goal should be at least 70% of parity, and we must also recognizes the importance of controlling production of commodities to keep supply and demand in line.

These goals for price and production levels lead us to several more specific recommendations in a number of commodity areas. In wheat, feedgrains, and soybeans, loan rates should be raised to at least 70% of parity, with a 1% per year increase until loan rates reach 90% of parity, which is where AAM has always believed loan rates should be. Also, the Findley amendment, which gives the Secretary discretionary authority to lower loan rates, should be repealed.

In addition, soybeans should be included as a program crop. Soybean producers should have the income protection, and program administrators should have the ability to determine necessary production levels and reserve needs. Producers of crops should be able to use soybean base as a part of their rotational practices.

Traditional price ratios among grains should be restored to avoid future situations where we fall short on one crop because the commodity program, rather than the market, has made another crop more profitable. In oats and soybeans, we believe this lesson was learned last year. The corn program discouraged the production of those two crops, which turned out to be in short supply when the drought hit.

Commodity bases should be stated in bushels and pounds rather than acres. From a planning standpoint, it is easier for producers trying to manage their input costs, and it is also easier for program administrators to plan supply needs and determine program costs. In addition, we believe that producers must have the ability to establish their actual yields with ASCS, and we commend the House for its prompt action on H.R. 2042, the Jontz/Madigan proven yield bill. Common sense requires that producers be paid according to their ability to produce, not by some artificial formula that can be manipulated at the whim of the Office of Management and Budget. We also recommend allowing producers to use the same established yield history for all USDA agencies -- including ASCS, FCIC, and FmHA.

Supply control measures should be used to keep market prices above loan rates. The method of supply control, whether production limits or marketing quotas should be put in place after a referendum among producers. If we can have a referendum two or three years after we put a check-off program in place, then a referendum on commodity programs before they go into effect shouldn't be too much to ask.

AAM recommends discouraging the practice of jumping in and out of the program in order to build base. We would suggest requiring any producers who choose to leave a program to stay out for a second year, and then to take a "zero" in yield and base calculations for the years out once they return to the program. Stepping out of the program for a year to build base frustrates the purposes of supply control, and can increase taxpayer costs. We certainly shouldn't reward those producers who are trying to farm the program instead of the land.

We would recommend allowing producers of wheat and feedgrains, and soybeans to switch up to 20% of their commodity base, on an annual basis, among those three commodity groups in order to respond to market needs. If a producer chooses to plant a traditional rotation crop, such as alfalfa or sweet clover, in order to use common sense soil conservation practices, his or her program commodity base should be protected. We do not support the idea of cutting back on the amount of base eligible for payment, and then making it up to program participants by allowing them to destroy the markets of producers of non-program crops. Too often in the last fifteen years, farmers have been pitted against each other by the design of the government programs. Flexibility in decision-making should not be the equivalent of cutting costs by cutting producers out of the programs.

AAM supports the continuation of the marketing loan program for cotton and rice, but we believe that loan rates should be raised to the target price level. Setaside requirements should be directly tied to carryover stocks. The Secretary should have to account for what's already on hand in deciding what production levels should be for the next year. We also recommend requiring that, whenever an acreage setaside or other supply control tool may be in effect for cotton and rice, that producers' bases be frozen for the year. The length of cotton loans could be shortened if the loan would have to be redeemed as soon as the cotton actually changes hands.

Dairy should have a national quota program, also after a producer referendum, also targeted at 70% of parity. Surplus should be redefined as stocks in excess of the government's needs for its own program commitments. Producers should not be penalized with price cuts on the basis of an arbitrary trigger that doesn't even account for government food distribution programs and concessional sales.

We recommend that domestic sugar, peanut, and tobacco programs be left in tact. They work for producers at virtually no cost to the government. We oppose efforts to alter those programs here or to trade them away overseas.

Finally, we also recommend that marketing orders for fruits and vegetables not be changed.

International relations

We cannot discuss farm legislation without also discussing the General Agreement on Tariffs and Trade, or GATT, which has progressed from total elimination of all programs by the year 2000 to a substantial reduction of "trade distorting" subsidies. I would add that in a hearing before the House Ways and Means Committee, U.S. Trade Representative Carla Hills would not rule out the possibility that the rural electric system would be viewed as a trade-distorting subsidy, when questioned by Congressman Dorgan.

I would like to commend you, Mr. Chairman, for your strong stance in Geneva in favor of writing America's farm policy in America. The farm bill must be written by the elected representatives of the people, not by appointed negotiators who are nearly unaccountable to the many families and livelihoods affected by the GATT negotiations.

We are still concerned by public statements made by Secretary Yeutter since the initial Geneva agreement, however. Secretary Yeutter has said that Congress is free to write a 1990 farm bill, but that of course it would have to modified later to become compatible with the final GATT agreement. We are concerned because past farm bills have left the Secretary a great deal of discretion to implement -- or not implement -- programs as he saw fit. Even though the U.S. Trade Representative and the Secretary of Agriculture have sworn to uphold the law of the land, we are concerned that many important parts of a 1990 farm law will simply be ignored if the administration can't convince Congress to change the law to be consistent with GATT. Given the administration's complete failure to defend our sugar program in GATT, we believe our concerns are well-founded. Fair trade may be swept out the door with domestic farm programs by the free trade broom.

AAM believes that it is very important to retain programs that help the U.S. enforce fair trade terms and keep us competitive against heavily-subsidized foreign competitors. We believe there is an appropriate role for the Export Enhancement Program. However, we are concerned that world prices have already been forced too low for any substantial gains in market share to really benefit American producers. Volume without value is meaningless. We would prefer to see international negotiations, either through GATT or through another similar group, to discuss supply and demand -- including reserve needs -- on a global basis. Negotiating market share hardly seems unreasonable anymore when GATT is already taking aim at member countries' domestic farm programs.

If GATT is successful, the American public will have a wider variety and larger supply of imported food products. In as much as the 1985 farm bill was a consumer-oriented "Food Security Act", and because of recent concerns among consumers regarding the safety of their food, we recommend that the 1990 farm bill include a requirement for country-of-origin labeling. It is no secret that imported foods are not inspected as often as domestic produce, nor is it a secret that U.S. chemical companies have been exporting pesticides banned in this country, only to have us import the end food product. We believe that consumers have a right to know where their food came from, particularly if they're going to have a much higher volume of imported food because of GATT.

Soil and Water Resources

One of the lasting achievements of the Food Security Act of 1985 was the Conservation Reserve Program (CRP), which has taken about 30 million acres of marginal land back out of production. While the program might be accused of providing benefit to farmers who failed to use good conservation practices back in the days of "fencerow to fencerow" planting, the goal of reducing soil erosion and saving precious resources for the future had to be viewed as overriding. One of the great failures of the Food Security Act of 1985 was the push toward a single commodity base, such as corn, which discouraged the use of traditional soil-restoring crop rotations, for fear of losing program base.

Commodity programs must be structured to allow producers to do what they know is right for the soil to keep it productive for future years. We would suggest establishing a setaside rotation program, similar to the CRP. This Soil Restoration Program (SRP) would allow producers to bid in land for three years. All soil types should qualify with a cap placed on the amount allowed to be bid in by each producer. We suggest the cap should not exceed 30%. This program would complement the existing 10-year CRP program, and could also serve as a forage reserve, since land would not have to be highly erodible to qualify. The SRP, coupled with a bushel-based supply control program and the 20% base flexibility I discussed earlier for wheat, feedgrains, and soybeans, would go a long way toward restoring common sense practices for soil conservation.

Since 1985, our awareness of groundwater problems has grown considerably, particularly with regard to the normal long-term use of agricultural chemicals. We urge the Committee to include research of, and farmer education on, less chemically-intensive farming techniques. But recognizing that there are already areas of contamination and some land on which no chemicals could be used for fear of leaching into groundwater, we urge you to expand the types of land eligible for CRP. Farmers should have a last resort that will allow them to do the environmentally responsible thing without putting themselves out of business.

CRP contracts will begin to expire within the next few years, and this would be a good time to begin discussions on what to do with that land. We must try to strike a balance between the interests of taxpayers, who have invested ten years of payments into rebuilding the soil, with the needs of the landowner, who is trying to make a living. We would suggest offering producers with CRP contracts a new separate contract, in which their commodity program base would continue to be protected in exchange for keeping the land in grass or trees. We also believe that CRP land kept in grass should be eligible to be used as pasture for a cow/calf operation. That way, the farmer could make a living off the land without having to plow it up for row crops, but the commodity base could still be there in the event the Secretary decided there was a commodity shortage. A new contract could be offered to producers in the seventh or eighth year of their CRP contract to give them time to develop a foundation herd.

Finally, I would like to ask for your help in keeping toxic waste dumps away from aquifers and productive farmland, which we would define as classes I through IV. We recognize that this isn't strictly in the jurisdiction of the Agriculture Committee, but this is a very important issue in rural America. Threats to groundwater and food safety come from a variety of sources, and with the vast majority of rural residents relying on groundwater as their primary source of drinking water, we must be vigilant in providing direction as to where these health hazards are located.

Thank you again for the opportunity to be here today. I would be happy to answer any questions you might have.

ATTACHMENT

COMMODITIES RATIO

(1) Whereas, the loan rates of agriculture commodities are too low and inconsistent; and,

Whereas, this inconsistency with which commodities are supported with relation to each other has caused farmers to switch from one crop to another creating expensive outlays, etc.;

Therefore, be is resolved that we recommend that loan rates follow established ratios, which are:

Beans to Corn:	2.40 to 1.00
Wheat to Corn:	1.45 to 1.00
Cotton to Beans:	10.00 to 1.00

Note should be made that all feed grains are already indexed to corn. The ratios should be set at 100% parity level.

NATIONAL
FARMERS
ORGANIZATION

Committee on Agriculture
U.S. House of Representatives

Statement of Kenneth Stremlau
Illinois State President
National Farmers Organization
July 12, 1989

1990 FARM PROGRAM LEGISLATION

Mr. Chairman and members of the Committee, we in the National Farmers Organization appreciate this opportunity to outline our views on a new farm bill. I am a full-time farmer producing grain near Mendota, Illinois. Mendota is in La Salle County, one of the finest farming areas in the United States. As State President of the NFO, I can assure you that recent international events and negotiations have alerted producers to the uncertainty that may lie ahead in our commodity markets. I participate in the farm program and believe strongly that the program should contribute to the survival of family farming in this country.

Although we are vitally concerned with rural development and the producers' problems with a number of commodities, this statement will relate primarily to the overall policies and priorities to be established in new farm legislation. Said another way, I hope to impress upon you our belief that there must be a substantial change in the general policy. Hopefully, we can concentrate on the specific problems of the individual commodities at a later date.

We are increasingly alarmed by the persistence of leaders in the Executive Branch and some in Congress that all policy decisions must be tailored to expansion of our export markets, regardless of cost to our farm producers.

In a recent appearance before the Senate Committee on Agriculture, the Secretary of Agriculture stated:

> "We simply cannot rationally construct farm legislation for the '90s until we know the outcome of the Uruguay Round. We are in a global marketplace, we all represent an industry that is export dependent, and if we are to reform agricultural production and trade policies in the world, we must go down that road together with our trading partners."

In the same hearing, he offered this observation:

> "American agriculture is still far too dependent on the generosity of the American taxpayer for its livelihood. That is unhealthy, and it is also unsustainable in the long run. Secondly, we have a major budgetary crunch on our hands. This country has a $150 billion budget deficit which will be reduced only through a combination of economic growth and spending disciplines. The USDA budget cannot realistically expect to escape the latter."

Those statements, coupled with conclusions reported from GATT negotiating sessions in Europe, constitute a clear acknowledgement that our whole farm policy currently is based on foreign trade and not necessarily favorable to our producers or consumers. Present legislation cut our prices to levels well below the cost of production, ran up the Treasury bill for the program to unconscionable levels for political reasons and now we are all faced with the absolute necessity of reducing program costs.

We believe this Administration, burdened as it is with the debts and policies established in the 1980s, will fail to convince other major governments that they should terminate all food subsidies and farm programs. That being the case, it well behooves the Congress to take the lead in reshaping our farm policy before we lose another block of family size farmers and have to depend largely upon absentee investors and hired hands for our national food supply.

Let me bring to your attention an appraisal of the mid-term review agreement in the Uruguay Round of negotiations concerning agriculture. I refer to the paper developed in a recent meeting of the International Policy Council on Agriculture and Trade, widely circulated in several countries by Lord Henry Plumb of Great Britain.

The Council is a group of twenty-eight policy experts from seventeen countries, including seven from the U.S., all of whom have professional interests in agricultural trade, but only four of whom appear to represent producers.

Referring to the mid-term agreement reached in Geneva in April, the Council states:

> "The agreement represents an important commitment by all the contracting parties to make agriculture more responsive to international market signals; to reduce the support and protection for agriculture which have seriously distorted the levels and patterns of production and trade; and to bring agriculture more effectively under the discipline of GATT rules."

We submit that it will be impossible to persuade our large world trading partners to subscribe to open trade in all farm commodities without any subsidies and government support programs. Neither the

Congress nor the American farmer should be held hostage to the GATT negotiations for another two years. It is foolish to talk about level playing fields as though this were some kid's game. The nature of farming in the U.S. and the survival of mid-range owner-operators is at stake. We must look to the Congress to redirect our domestic farm policy along more sensible lines.

Succinctly stated, we simply cannot agree that this next farm bill should be dictated by the international traders and the representatives of a number of other governments, all of whom rightfully have in mind their own economic and political goals and objectives. The next farm bill should be written here and now - not in Europe. It should be at least a five year bill. Its authors should keep in mind that exports, important though they may be, are nevertheless capable of using only about one third of our production. Furthermore, we believe it is quite foolish to expect that our people can pay the high taxes, interest, labor charges and cost of our other inputs in uncontrolled competition with new land and cheap labor in many other countries.

There are alternatives to the GATT with which we can deal effectively on trade in farm products. International trade agreements should be developed in cooperation with other major producing nations on a commodity by commodity basis.

Let us turn to improvements in the farm program that will strengthen our own domestic economy in the rural areas.

Exports - Who Benefits?

We believe there is little disagreement among those affected or involved in agricultural policy the past four years as to the intent of the 1985 Food Security Act. The generic certificates, lowering of price supports, the marketing loan concept, and the Export Enhancement Program were all designed to lower market prices in an effort to be more competitive in the world market. Our current policy is export driven.

As we farm in the fourth year under this policy and begin work on the 1990 farm bill, we believe there are several major questions that must be addressed by this Committee. Have the programs worked as intended? Who are the beneficiaries? Have low prices and payments been good for our farmers and our domestic economy in the rural communities? Should we continue in this direction on a long-range basis? There is enough experience to make some reasonable assessments of whether we are on the right track.

We are very much aware that the current Administration and many members of this Committee would contend that the 1985 Act has been successful. By and large, a substantial number of farmers might also agree to continue in this direction, especially those who have received large deficiency payments and drought relief checks. We ask, however, can you continue expenditures at current levels?

While appraising the major intent and results of 1985 legislation, we can readily understand why many non-producers may consider it to be a success. It has lowered market prices as intended:

Season Average Prices

	1980-85	1986-88
Corn	$ 2.74	$ 1.99
Wheat	3.52	2.90
Soybeans	6.34	5.97

Exports have increased, but there is substantial debate on how much of that increase may rightfully be attributed to each of these factors - price cuts, direct subsidies, the effect of drought and foreign policy decisions in which grain sales were a consideration.

Volume Versus Dollars

Most studies of which we are aware analyze various program options using the resulting export volumes under each option as a measure of success or failure. The assumed market price under each of the options is the major determinant in the resulting export volume.

We do not know of a single study or analysis that uses net farm income or farm gate price as a major criteria in deciding future agricultural policy. The 1985 Act dealt with this through tremendous direct payments to farmers, recording the highest cost of any farm program in history.

It is doubtful that anyone would question the statement that the 1985 Food Security Act has failed in saving our family farms and rural communities. One third of our mid-range farmers have been lost. Many of our rural business and community infrastructures are gone. Even now, you are faced with the challenge also to legislate a new rural development program, largely because of low net farm income in recent years.

We recommend that the Committee, having access to records in the Executive Branch not readily available to the public, conduct an objective analysis of the actual increase in dollar value of exports of the individual farm commodities since 1985 and all the costs incurred to attain those increases. If the reduced prices and all the government outlays are fairly considered, we suspect that only the international traders and the buyers benefited at a huge cost to the U.S. taxpayers and farmers.

A Less Costly but Effective Program

Security

The first consideration in redesigning a farm program must be the security of our food supply for the American people. Nearly as important is the urgency of revitalizing the rural areas so as to reverse the recent heavy migration to the cities where social and economic hardships have multiplied at an alarming rate. This may only be accomplished through a number of actions, one of which must be the assurance of improved commodity prices.

This country rightfully supports programs to aid the less developed countries in the name of benevolence, democracy and market development. We also have subsidized many developed countries through our extensive military expenditures and other huge giveaways. As a nation, we continue to borrow money from all over the world to run our government. Then we ask farmers to turn out big crops and sell them for less than the cost of production in an effort to regain some of the lost favorable balance in foreign trade.

It appears that world tensions are abating and there are opportunities to reduce the tremendous defense expenditures recorded in recent years. This Committee has a parallel opportunity to redirect the commitment of funds used in the farm program to strengthen the rural economy through an increase in loan rates while reducing the taxpayer's burden brought on by high deficiency payments. Such a course would reinforce the security of a domestic food supply in the future, but that will be accomplished only if we can rebuild profitability on the family size farms and ranches.

Milk Price Supports

Our dairymen are prepared to support a supply management program for milk. Such a program should be farmer controlled and designed to reverse the recent down trend in prices for those supplies going to the primary market. Minimum price arrangements should reflect the cost of production.

We are willing to consider a two-price system or other modification that would move temporary excess production to storage or other use that would not become a burden to the taxpayer. Development of such a program on a national basis would require patience and the cooperation of a number of organizations. We are quite willing to work with others and the Committee on such a new program.

Grain Price Support Levels

The permanent authorities established in the Commodity Credit Corporation Charter Act, and related laws provide ample authority for the Secretary of Agriculture to administer price supports for the major commodities covered by the 1985 Food Security Act. It is recommended that the Congress establish certain guidelines for the 1991-95 crops, including minimum price support levels. Program benefits should be targeted primarily to small and mid-range farm and ranch operators.

The owners and all operators on absentee alien owned land should not be eligible for any program benefits after a certain date. In fairness, we should provide one year of warning and then terminate this form of subsidy for all foreign investors.

Increase non-recourse loan rates to 1985 levels for 1991, with provision to advance rates thereafter over the next four years, in amounts commensurate with the increase in the cost of production. Payments should be reduced progressively as loan rates are increased. Production goals should be established at a level providing national food security but not so high as to depress prices below loan rate levels. The producer would then be eligible to repay original loan with interest at any time.

Reserves

Clarify the Farmer Owned Reserve by requiring the Secretary to offer the producer an option to extend an original loan when supplies temporarily exceed our national requirements for domestic and export markets plus a reasonable contingency reserve. Such optional extensions should be offered for a period up to three years.

Under this plan, the producer would be paid for storage after the initial 9-month loan period and would be permitted to repay the loan at any time. Storage payments would cease when the average national market price reaches 125% of the original loan rate. Mandatory repayment would be called when such price reached 140% of the loan rate for a period of 30 days.

The Secretary should be required to continue offering a farm grain storage facility loan on buildings to hold up to two years of production on the farm.

An agreement should be negotiated with other countries to establish a World Food reserve to furnish relief in the event of regional drought or other major catastrophe. The U.S. share could be stored and maintained by the CCC. Other than exchanges to provide for fresh stocks, all releases from this reserve should be for emergency purposes, here or abroad. Potential user countries should be asked to support, financially, the creation of this reserve. It should be widely dispersed for storage in safe hands for obvious reasons but should be isolated from the domestic market.

Environment and Flexibility

Administer the program in bushels rather than acres. Continue the sodbuster and swampbuster provisions adopted in the 1985 Act. In the interest of simplifying program administration and advancing various conservation concepts, convert the administration of the commodity programs from acres to pounds or bushels. Set farm bases in these units and require producer compliance certification in terms of such production units. This would provide the producer an opportunity to make most effective use of the land, labor and capital. Require weed control, crop rotation and other practical conservation measures on land subject to erosion by wind or water.

The producer would certify the amount of his production and points of storage or sale after harvest. Performance would be subject to spot check. Eligibility for price support would be established by producing and marketing no more than his goal for the year when we seek to limit production. In times of emergency or other demand for extra production, the goal may be set to produce a minimum amount to establish eligibility for price support.

Much has recently been made of the need for flexibility in program provisions. Most of these expressions originate from commercial concerns interested in higher production of such crops as soybeans. We are confident that farmers will produce to meet market requirements if the prices offered are fair. By simplifying the administration of provisions for the so-called program crops, the Congress can reduce the administrative cost to the government and the producer's cost of production. The producer will be relieved of the pressure to push with excessive chemical applications for ever increasing yields. The most efficient use may be made of the land.

In summary, the program emphasis would be placed on price support and production levels that match market demand rather than on Treasury payments. Conservation and sustainable farming concepts would be encouraged and assisted through on-going SCS and ACP programs.

The U.S. is now down to about 700,000 full-time farmers and ranchers in this country. We have lost enough. We can no longer afford to dismiss all discussions of price supports for domestic usage at cost of production levels as being in conflict with our efforts to maintain viable export markets. The preservation of our family farms and rural communities must be of overriding concern in the next farm bill.

An Administration sincerely interested in expansion of export markets at prices fair to our producers should initiate multilateral agreements on a commodity by commodity basis.

We will be pleased to work with you over the coming months.

THE NATIONAL GRANGE

STATEMENT OF

ROBERT E. BARROW

MASTER OF THE NATIONAL GRANGE

BEFORE THE

HOUSE COMMITTEE ON AGRICULTURE

JULY 12, 1989

RE: REVIEW OF ISSUES RELATING
TO THE 1990 FARM BILL

Family Farm Organization Serving Rural America

THE NATIONAL GRANGE, 1616 H STREET, N.W. WASHINGTON, D.C. 20006

Mr. Chairman and members of the House Committee on Agriculture, I am Robert E. Barrow from Swansea, Massachusetts, and I am just completing my second year as Master of the National Grange. The National Grange is a general farm organization whose headquarters are located here in Washington, D.C. at 1616 "H" St., N.W. It is a pleasure for me to be making my first appearance before such a distinguished panel of agricultural experts. I approach my task this morning with humility and apprehension.

Since its beginning in 1867, the Grange has been deeply involved in the development of agricultural policy and its impact on the quality of life and socioeconomic conditions of those who live in rural America. The Grange, representing 325,000 members in 42 states, is more than just a farm organization. Its policies and programs relate to a broad array of issues that affect individuals, families, communities, and national interests.

Mr. Chairman, the National Grange commends you for the leadership that you have not only provided to this Committee, but that you have so unselfishly given to all segments of the agricultural sector. We appreciate this opportunity to present, in general terms, the provisions the Grange would like to have included in the 1990 farm bill. I have with me this morning Mr. Robert Frederick, legislative director of the National Grange, and Leroy Watson, legislative representative. With your permission, Mr. Chairman, I would like to request that they be permitted to respond to any questions that you or the members of the Committee may have.

Before highlighting some of the provisions that the Grange believes should be the components of a new farm bill, I believe it would be wise to briefly review the 1985 Act that ends with the 1990 crop year to try to determine if it is meeting its objectives. This review should help in the discussion of the legislation that will replace the Food Security Act of 1985.

The National Grange supported the Food Security Act of 1985 because we felt that it would meet not only a majority of the Grange's short-term objectives for the United States' agricultural sector, but that it would also enhance the prospects for major changes in the trading rules that oversee the international trading of agricultural commodities. Our short-term objectives were: 1) to stabilize the farm economy; 2) to increase the United States' agricultural exports; 3) to prevent the accumulation of large surplus stocks while, at the same time, reducing the reserve stocks that are being held by the Commodity Credit Corporation (CCC).

According to a March 1989 report of the United States General Accounting Office entitled "Agriculture - Progress Made Toward Goals of 1985 Farm Bill", the bill has, in varying degrees, met these objectives. The report said, "Following passage of the farm bill in December 1985, improvements have been seen in the U.S. farm economy, exports, and stock levels. Farmers' assets and equity (assets minus debt) began moving up in 1987 after a period of steady decline. Farmers' net cash income continued the rise that had begun in 1985. Without government payments, however, the net cash income rose only slightly after 1985. The farmers' debt burden, which was measured by interest payments as a percentage of net cash income, reached a peak in 1981, but declined as the decade progressed." The report continued, "Since the bill took effect, the spread between the United States' prices and its foreign competitors' prices has narrowed for corn, rice, and cotton, but not for wheat. Also, U.S. agricultural exports have increased and the United States' share of the world's market for wheat, coarse grains, cotton and rice has rebounded from lower levels. However, the United States' share of the world's soybean markets continued to decline for reasons that are unrelated to the '85 Act. The volume of U.S. agricultural exports decreased by about 25% from 1983 to 1986, and then increased by a comparable percentage from 1986 to 1988."

Under the 1985 Farm Bill, the GAO says: "Stock levels have generally declined. To illustrate this, the total U.S. 'ending stocks' (the total number of publicly and privately-held stocks that have been carried over from one marketing year to the next) for wheat reached their highest level in the 1985-86 marketing year - 1,900 million bushels. However, the wheat stocks began a steady decline the following year, and are forecast to reach about 500 million bushels in the 1988-89 marketing year."

International trade is critical to the United States' agricultural economy. In the 1970s, it contributed to farm prosperity. In the 1980s, it has contributed to farm despair. The recent turnaround in U.S. exports is, in part, a result of two components of the 1985 farm bill - reduced support prices and increased export programs. There is no doubt in our minds, or in the minds of many trade experts, that the pressure for an increased world market share by the United States has brought our major competitors to the international bargaining table. The eighth round of the multilateral trade negotiations (MTN) under the General Agreement on Tariffs and Trade (GATT), known as the Uruguay Round, would not have obtained the wide support of the competing countries if the '85 farm bill had followed the course that was set in the "Agriculture and Food Act of 1981".

The challenges that are facing the Uruguay Round of the MTN are summarized well in an article that appeared in "Policy Choices For A

Changing Agriculture", which is North Central Regional Extension Publication #266 which was published in June of 1987. The article is entitled "Trading for Prosperity in American Agriculture: A Political Pipedream or A Practical Plan?" It was co-authored by Kirby Molton of the University of California at Berkeley and C. Parr Rosson, III of Clemson University. The authors said, "Participants in the eighth round of the multilateral trade negotiations under GATT will focus on reducing the level of worldwide agricultural protection (including protection arising from domestic agricultural policies), liberalizing the trading of tropical products, and lowering the tariff barriers that have been imposed on forestry and fishery products. A major question to be addressed is whether or not countries will partially dismantle or significantly modify their farm programs that restrict trade. Questions for U.S. negotiators include: what parts of U.S. policies and programs can or should be given up in return for concessions by other countries?"

The positions that have been taken by the United States in the GATT Round are well known to this Committee. However, the question has been asked, and I am sure that it will be repeated here today, "Should the United States wait until after the Uruguay Round's MTN is completed before it writes a new farm bill?" In the Grange's opinion, the answer is "no". New farm legislation should be drafted that fulfills the financial and export requirements of the United States' food and agricultural industry and that addresses the interrelationships between agricultural policy and environmental quality, conservation, and the quality of life in rural America. Farmers must know what direction the new farm programs will take before the conclusion of the Uruguay Round so that they can plan their planting accordingly. We have no assurance that the MTN will be completed before a new farm bill must be signed into law. If the Uruguay Round is completed before the end of 1990, it will take several months before the bill can be drafted into legislative language and passed by Congress. It's important to remember that the legislation implementing the agreements that are reached in the MTN cannot be amended by Congress. It's an up or down vote.

If enacted in mid-1990, the new farm bill, if necessary, can be amended by Congress to make it conform with the congressionally-approved GATT agreement. I would like to submit that both activities will be taking place at the same time. Therefore, Washington, D.C. and Geneva will have one eye on each other and one eye watching the positions that are taken by each. The position that is taken in one could stimulate a reaction in the other. The spring and summer of 1990 could prove to be very interesting as Congress and the GATT struggle with domestic farm policies and programs and their possible impact on international trade.

The Food Security Act of 1985 can be judged as meeting its major policy objectives and should certainly be considered the starting point of the debate on a new farm bill. As I stated earlier in this testimony, the Grange supported the '85 farm bill, and if we have any criticism to make of the measure, it is not because of the provisions the bill contained but because of the provisions the bill did not contain.

MARKETING LOAN

The National Grange has been supporting an alternative for future commodity programs. The marketing loan is a new concept for the commodity loan program by which farmers who place their crops under loan with the

Commodity Credit Corporation (CCC) would repay their loan at the original loan level, or at a level that has been determined by a set formula of domestic or world market prices, whichever is lower. The other difference between a "pure" marketing loan and the regular loan program is that a "pure" marketing loan is a recourse loan that must be paid back whereas a regular loan is a non-recourse loan the farmer can repay by abandoning the crop to the CCC as full payment.

Listed below are many of the benefits of the marketing loan program that appeal to farmers, export interests and the government:

- The formula would allow United States' commodities to be competitive on the world market.
- The repayment formula will maintain an adequate income support for producers.
- A marketing loan will allow the market to clear by eliminating the market-interfering aspects of the current program.
- It will reduce the need for supply management programs. But when such a program is necessary, it removes the incentive for our competitors to expand their production because we will remain price-competitive, thus encouraging our competitors to share in our efforts to adjust production when surplus supplies exist.
- The marketing loan will avoid the government's programs of storing surplus commodities, which become costly to store and which may ultimately reduce prices.

A modified version of the marketing loan is contained in the '85 Act for cotton, rice and honey (also for wheat and feed grains at the discretion of the Secretary of Agriculture). The current marketing loan program for the above three commodities have had mixed results, but we would like to recommend that they be continued in the next farm bill. Mr. Chairman, the National Grange realizes that there is a difference between commodities, but we believe that the program should be applicable to wheat, feed grains, and soybeans. We believe that it can be as effective with those commodities as it is for cotton, rice, and honey. In fact, it may be even more effective if it is a "pure" marketing loan.

The Grange is concerned with simply implementing the marketing loan for wheat or feed grains, which the '85 farm bill, at the Secretary's discretion, allows. That program has a 70% floor, which means the producer must pay back the loan at not less than 70% of the loan rate. Moreover, it is a non-recourse loan, which means when the market falls below the 70% level, the producer will have an economic incentive to forfeit the commodity to the CCC, thereby accumulating surplus stocks. This program does not allow our prices to move to competitive levels and leaves a price floor that our competitors can undercut. In other words, the government is still influencing the price in the marketplace. A "pure" marketing loan allows the price to fluctuate to world levels without the government's intervention. In setting a floor, the United States has told its customers what its commodity prices will be in six months, twelve months, etc. The "pure" marketing loan removes the certainty and forces both customers and competitors to buy and sell subject to the market.

In light of the increasing importance of exports to U.S. farmers, the highly competitive nature of international marketing, and the need to retain economic support for farmers, the National Grange believes that a targeted marketing loan that is designed to assist moderate-sized, commercial family farms is the alternative that should be pursued in the future. The following is a brief outline of the Grange's marketing loan proposal:

- The loan rate would be set annually by the Secretary of Agriculture at the national average cost of production.
- Target prices would be eliminated.
- The producer would pay back the loan at the lower of:
  1) the original loan rate, or
  2) the county monthly average market price.
- A limit would be placed on the total aggregate amount of commodities that could be placed under the marketing loan, and a payment limitation would be applied to the government's payments.
- Acreage Reduction Programs would be phased out.
- Commodity certificates would be eliminated.
- Export Enhancement Programs would be eliminated.

The National Grange reaffirmed its support of the marketing loan program at its last annual convention that was held in November of 1988 in Redding, California. However, we are very much aware of the constraint on replacing the current programs of price supports and deficiency payments by the marketing loan program. The cost of the marketing loan program would be higher than are the present programs, particularly in the initial implementation. The cost would also be forced higher if our foreign competitors chose to subsidize their exports in order to remain competitive. However, we believe that the targeting feature of the program, which limits the amount of any crop that any one farmer can place under the marketing loan program, not only can be used to control the cost but could give rural economies a financial boost by helping the medium-sized, full-time family farmer to remain on his/her land.

The trade legislation that was signed into law in the 100th Congress provided for the implementation of the marketing loan program if acceptable progress on agricultural trade issues is not obtained during the multilateral trade negotiations that are now taking place in Geneva. The GATT Uruguay Round is due to end in December of 1990 and if trade distorting practices are not "substantially and progressively reduced", the Grange will ask Congress to implement the marketing loan provisions of the Omnibus Trade Act.

The National Grange has supported the targeting of farm program benefits to small and medium-sized family farms since 1978 when we introduced the Variable Deficiency Payment Program. Since that time, the Grange has supported legislation and regulations that has, or would have, resulted in the limiting of program payments to the larger farms.

The current structures of commodity support programs have been inefficient because they are designed to provide income and price support, both directly and indirectly, to virtually every unit of production. This includes production beyond the point that is needed to fulfill domestic consumption and world demand. Ironically, commodity support programs that treat all units of production equally have helped to move the United States' agricultural sector toward a remarkably unequitable bipolarization.

Programs that have supported the last units of production of large farms equally with the first units of production of all farmers have distorted the distribution of farm input resources. Using economies of scale, the larger farmers have increased their ability to outbid and command input resources, such as land, labor, capital, chemicals, etc. Commodity programs distort this system by failing to provide adequate market-based signals to large and expanding producers that the value to the market and society of each subsequent unit of their production is diminishing. To compensate for the large farmers' unneeded last units of production, we have forced others to bear the burden of adjustment. We have required all farmers to participate in mandatory acreage set-aside programs in order to qualify for program benefits. We require the taxpayers to bear the costs of commodity storage or product sale at a loss. Finally, and more frequently than anyone desires, we encourage the elimination of another farmer's first unit (and subsequent units) of production.

The National Grange believes that the medium-sized family farmers should receive targeted benefits from government programs. As farmers increase their production levels beyond certain modest points, their benefits from direct government support programs should decrease, eventually to be eliminated. Targeted support would eliminate many of the distortions that are caused by the current programs. The farmers who have large operations would find that their economies of scale would be offset by the reduced stability of the price of their product in the marketplace. The larger farmer would find that his relative advantage in bidding for input resources is offset by a policy that puts his smaller neighbor on a more level playing field. Such a program should encourage large farmers to become more efficient by working to maximize their output while minimizing their input.

Many individual farmers suffer from financial hardships that are caused by low prices and high debts. The current commodity support programs do not provide adequate payments to farmers who are under financial stress. Targeting program benefits would not specifically address this problem in the short-term either. However, unlike the current commodity programs, a targeted commodity program would provide the resources from the estimated $5.75 billion in projected savings to fashion a humane targeted income or debt assistance program that is based on the individual farmer's needs. In the long run, the current programs offer many farmers the prospect of continued financial stress. A targeted program offers them the hope of improved supply and demand balances for the commodities that they produce as well as an important safety net for their family's income.

Targeted benefits for federal farm programs would assure both the nation and the world of a diverse and efficient agricultural sector. It would help to maintain a "critical mass" of agricultural economic activity in rural America, which is essential to the prosperity of thousands of small towns and is the dam that holds back a flood of rural outmigrations to already stressed urban areas.

As I travel across the country visiting Grange members, I find little support for major changes in the Food Security Act of 1985. This is true even though our policy recommends that the marketing loan program be extended to include wheat, feed grains, and soybeans. However, the Grange still supports the marketing loan program as a replacement for the present commodity programs if an agreement cannot be reached in the GATT negotiations to reduce or eliminate the trade distorting features of domestic farm programs on a multilateral basis.

The National Grange staff has reviewed information on the various options that are being considered by Congress to modify the '85 Act, including decoupling, triple base, normal crop acreage and continued export assistance. The Grange does not have policy at this time on these issues, but when we hold our 1989 Annual Convention in November of 1989 in Greensboro, North Carolina, we will formulate such policy. With your permission, Mr. Chairman, we would like the opportunity to submit at a later date the Grange's recommendations for the 1990 Farm Bill that are different from those that we have presented thus far today. I can tell you that farmers have told me that if they are to meet the environmental and consumer challenges that now face us, more flexibility must be put into the present farm programs. Farmers who rely upon the export markets agree that they also need flexibility if they are to continue to participate in the world markets.

CONSERVATION

The National Grange believes that the natural resources of the United States, such as soil, air, and water, are unique treasures. Our organization has a long and proud history of support for soil and water conservation programs. Many of the founding members of the modern conservation movement, such as Gifford Pinchot, were active farmers and leaders in the Grange at one time.

We believe that the time-tested benefits and responsibilities of private property ownership and management have already provided this nation with one of the highest levels of resource protection of any nation on earth. Coupled with private ownership has been a 50 year tradition of incentive-based, cooperative, government/private programs that are administered by state and local authorities to redress the environmental and conservation problems on our nation's farms. This system has served us well.

In 1985, the Conservation Title of the Food Security Act expanded our nation's menu policies to address the problems that are involved in soil conservation. Those programs were the Conservation Reserve, the sodbuster/swampbuster restrictions, and the conservation compliance provisions. The National Grange supported the adoption of these provisions in the '85 farm bill. By many measures, these programs can be considered successful.

The enrollment of highly erodible land in the Conservation Reserve is on target with a current enrollment of 30 million acres. Almost all of the remaining identified, highly erodible land that is still in production has a conservation plan, and USDA officials predict that virtually 100% of the affected acreage in this country will be under an approved conservation plan by January 1, 1990. The conversion of fragile land and wetland to productive acreage has slowed down tremendously compared to pre 1985 days. Even with these accomplishments, we are still disturbed by some of the aspects of the '85 farm bill's Conservation Title.

Traditional, federal soil and water conservation cost share programs, such as the Great Plains Conservation Program and the Agricultural Conservation Program, have seen their appropriations drastically reduced as scarce budget resources have been shifted to '85 farm bill Conservation Title programs. The philosophical focus of this nation's soil and water conservation effort has also been shifted. We are subtly adopting a national farm/environmental policy that increasingly advocates when farming practices are alleged to conflict with environmental goals, the preferred recourse is to stop the people from farming. One approach to this new philosophy is to pay people not to farm when they are accused of being in conflict with their environment. This is the rationale behind the Conservation Reserve. Another approach is to use the selective threat of economic duress to coerce farmers to leave farming or to surrender a large portion of their managerial decisions to the federal government. This is part of the rationale that is behind the swampbuster/sodbuster conservation compliance and the Farmers Home Administration's Conservation Easement programs.

Prior to 1985, our national policy was to redress environmental and farming conflicts in a manner that is beneficial to both farmers and the environment. Successful and profitable farming is, after all, dependent upon a sound environment and a natural resource base. It is also dependent upon the wise, educated, and voluntary stewardship of the men and women whom we have entrusted with the responsibility of producing our nation's food and fiber - our family farmers.

We do not advocate the repeal of any of the '85 farm bill's conservation programs. Instead, we are advocating that Congress reestablish flexibility and cooperation as being the cornerstones of our nation's agricultural, soil, water, and air conservation policies. We believe that individual farmers, rather than the federal government, should be recognized as the leading force in the conservation of farm resources. We support the reestablishment of a cooperative, incentive-based approach to the problems of agricultural pollution, focusing on education, technical assistance and financial incentives before alternatives that are based on coercive strategies are employed.

We support delegating to the states the authority to develop and implement agricultural resource management plans that are responsive to local needs and conditions. Such plans should be use-based and should account for existing as well as planned resource use. They should exclude such non-attainable goals as absolute non degradation, and should recognize the existing legal structures and delivery systems, such as state water laws, multistate regional compacts, state water resources, and natural resource boards and local Resource Conservation Districts. They should also provide for input from the farming and conservation communities as well as from individuals.

State-administered, agricultural resource management plans should also be flexible enough to protect a farmer's legitimate economic interests, including property rights. In addition, a weighing of costs vs. benefits for innovative proposals should be part of any resource management policy. For example, where applicable, special exemptions to existing farm management plans or federal sodbuster provisions should be allowed for the cultivation of high value, labor intensive crops not to exceed one acre per farm.

The role of the federal government should be to develop the broad standards for state and local natural resource planning. The federal government must also provide state and local governments with the technical and financial assistance that is needed to implement natural resource management plans. Where state and local governments have already proceeded with locally-based, natural resource management programs, they should be credited for those efforts.

In addition, the federal government must take the lead in developing natural resource databases, such as a database for groundwater, where they currently do not exist. In addition to physical resource databases, knowledge resource databases that are used to determine the extent of technical knowledge among the farming, academic, environmental and regulatory communities is necessary.

Congress must also provide the financial resources with which to carry out the above outlined recommendations. In addition, various federal programs in a variety of agencies that affect agricultural, natural resources must be better coordinated with each other at the federal level and with their appropriate counterparts at the state and local levels. We believe that an agricultural natural resource ombudsman who reports directly to the Secretary of Agriculture should be given the authority to oversee, coordinate and harmonize the agricultural natural resource missions of the USDA, the EPA, the FDA, and the Army Corps of Engineers.

RESEARCH AND EXTENSION

The Grange continues to support the Cooperative Extension Service and firmly believes that as we struggle to improve the quality of life in rural areas, the Extension Service will have increased responsibility. A part of that responsibility will be assisting farmers on alternative crop production as they venture into these new and specialized activities.

One federal program for small farmers that needs immediate attention and increased funding is the USDA's Office of Small Scale Agriculture. Buried deep within the USDA's Cooperative State Research Service, this agency is the only entity within the USDA which specifically attempts to provide service to our nation's small farmers. With limited resources, the

Office of Small Scale Agriculture currently has five programs that address the needs of the small farmers. These programs include a newsletter, a survey program of the thousands of agricultural research programs to determine which of them could be adapted to better serve the small farmers, participation in conferences on small farms, preparing fact sheets, and compiling a national directory on small scale agriculture.

Sadly, most of the other USDA agencies make little or no attempt to structure their products' services to be appropriate for small farmers. Small farmers need a strong, well funded ombudsman's office in the USDA that has the resources to translate a greater share of the USDA's services to the two-thirds of U.S. farmers who are small farmers. A detailed Congressional review of the mission and goals of the Office of Small Scale Agriculture, coupled with increased ombudsman activity, would be a substantial boost for both small farmers and rural development.

There is growing public concern about groundwater contamination, pesticide residue on food, the high cost of modern agricultural practices, soil and water conservation methods, and many other environmental and health concerns. The new farm bill must address each of these issues and must respond in a positive manner to the public's conception that the methods the farmers use to farm are destroying the environment and are increasing health risks.

The USDA's research and education grants program, known as LISA (Low Input/Sustainable Agriculture), responds to an emerging interest by many farmers for a more cost-effective and environmentally benign agricultural sector. It may also be one way by which the agricultural sector can address the concerns that I have mentioned above. The LISA program was created in response to Subtitle C of the Food Security Act of 1985 - Agriculture Productivity Research. Congress appropriated $3.9 billion for 1988 to fund "low input" research projects.

Legislation has been introduced that will provide a number of incentives for farmers to switch to the USDA-approved, low-input farming practices, which include: 1) increased base; 2) yield and target price protection; 3) reduced set-aside requirements; 4) new loans for conservation practices; 5) lower crop insurance premiums. The National Grange cannot support the "Farm Conservation and Water Protection Act" in its present form.

Low-input farming is actually management and information intensive. Farmers will need to better understand the complex biological and climate interactions which influence crop and livestock production in order to effectively lower their inputs. Farmers need more information that is provided through research than is now available to make this type of farming pay and to reach the potential that many scientists and soil researchers see for sustainable agriculture. If sound research data can show farmers that they can maintain their yields and the quality of their crops at a lower cost of production and still protect the environment and reduce health risks at the same time, they will readily adopt alternative farming methods. But enticing farmers to switch to low-input farming through economic incentives will lead many of them into trouble and bankruptcy. Therefore, the Grange will support the authorization of substantial increased funding for research on low-input sustainable agriculture. At the same time, more research should be done on what the best management practices are for crop and livestock production in order to determine the cost/benefits of producing food and fiber with emphasis being put on reduced dependence on agricultural chemicals.

As agriculturalists, we must take charge of our own destiny. If we don't, others will decide for us how to use our land. One of the dangers that is facing farmers is the possibility of stricter environmental and health regulations regarding farming practices. We're but one step away from dictated land use management if we don't provide the farmers with the research that is necessary for them to meet the challenge.

RURAL DEVELOPMENT

We wish to thank Rep. Glenn English, chairman of the House Agriculture Subcommittee on Conservation, Credit, and Rural Development for holding hearings on the issue of rural development. We are especially pleased that he wants rural development to be a part of the 1990 farm bill.

While we no longer believe that simply putting a profit back in the agricultural sector will resolve all of rural America's problems, we are still firmly convinced that rural development should have a strong agricultural and farmer component. Many studies indicate that the farm structure and quality of life of rural communities are strongly interrelated. Since World War II, a structural change has occurred in the United States' agricultural sector that was led and fed by federal commodity policies, tax laws, trade, and foreign and fiscal policies. These were often supported by the Grange as well as other farm groups. What we now believe is that we have built an agricultural production machine that has consumed farmers. We are watching the subsidized consolidation of commercial U.S. agriculture into what the Office of Technology Assessment predicts will be a bipolar agricultural sector - a few large commercial farms that will produce the vast majority of this nation's food and fiber and one to two million small and medium-sized family farms, many of which will be only partially commercial, or subcommercial, operations.

For too long, agricultural public policy has given scant attention to the small U.S. farmers. Our emphasis has been on production rather than on people. Yet, there is compelling evidence that, from the perspective of rural development, it is time to reexamine the questions of farm structure. It is for this reason that we applaud the hearings that have been held by the Subcommittee. Our statement on rural development is a part of the hearing record and is available to the members of the full House Agriculture Committee for their review.

DAIRY

The National Grange is still concerned that the agricultural sector is losing too many family dairy farms. The loss of each farm has more of a negative impact upon the rural community than it does upon the nation's milk supply. Many of the farmers who are leaving the dairy industry are from sections of the country where dairying is the best way to utilize the resources that are available. In an effort to help maintain Vermont's dairy industry, the Vermont State Legislature approved a measure that added .50 per hundredweight to the price of milk that is produced within Vermont. Other states are considering implementing assistance programs in an effort to keep their family dairy farmers from leaving the land.

We believe that it is the fear of losing these farms that is the driving force behind the Grange's, and other farm groups, strong resistance to the introduction of synthetic bovine growth hormones (bGHs).

At our last annual convention, the delegates approved the following policy on this issue:

> "The National Grange respectfully requests that the commercial introduction of a synthetic bovine growth hormone be delayed until:
>
> a) Sufficient data is acquired across several lactations to provide an adequate basis upon which long-term projections of the effects (positive, negative, and neutral) of bGH on herd stress, health, and fertility can be reasonably made.
>
> b) The USDA completes a study of the impact of bGH on the Federal Dairy Price Support Programs, especially on the small and medium-sized dairy farms.
>
> c) The National Grange opposes the use of bovine somatotropin until such time as it has been proven to be safe for all concerned."

The guiding principal of the Grange's policy on dairy programs can best be summarized by two policies that were adopted in November of 1988:

> "1. The Grange believes that past support price cuts have not curtailed production in the heavy milk producing areas of the country. Support price cuts will penalize the areas of the country that have high milk utilization. The Grange supports a more effective way of reducing the surplus milk problem.
>
> "2. The National Grange supports a milk supply management program that recognizes the regional differences that

> are based upon the amount of production, the availability to markets, or the percentage of production which could be allocated to CCC stocks."

We would like to request that following our 123rd annual convention, which is to be held in November of 1989, we be permitted to submit the Grange's position on new dairy programs to the House Agriculture Subcommittee on Livestock, Dairy, and Poultry.

In conclusion, Mr. Chairman, the Grange believes that the Food Security Act of 1985 continues to meet its objectives and should be the foundation of the new farm bill. In light of the GATT negotiations and to keep the European Community's attention, it may be wise to consider extending the marking loan program to include wheat, feed grains, and soybeans, as well as increasing and extending the Export Enhancement Program. We do not believe that any major changes in the present farm bill are necessary. Both the tobacco and peanut programs should be continued because they have been successful and have the strong support of their producers.

We should continue the steady movement toward greater reliance on the market, support prices that are set in relationship to the world's markets, and the gradual expansion of freedom for individual producers to make their own planting decisions based upon the markets and not on the farm programs.

In addition to being budget driven, the public's concern over the environment and possible health risks will play a large role in shaping the next farm bill. We encourage consultations and cooperation with the proponents on these issues. The agricultural sector may have banks of scientific data to support their positions on these and other issues that impact the food and agricultural industry, but it is the public's conception of these issues that must be changed and their support must be gained if farmers are to control their own destinies. We look forward to working with the Subcommittees and the full Committee in obtaining the best farm bill for farmers, consumers, and rural America.

Thank you, Mr. Chairman and members of the Committee, for providing the National Grange with this opportunity to present the highlights of our position on the 1990 farm bill. We will be glad to respond to any questions that you or the members of the Committee may have.

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STATEMENT OF HELEN WALLER, CHAIR - AGRICULTURE POLICY COMMITTEE, NATIONAL FAMILY FARM COALITION BEFORE THE HOUSE AGRICULTURE COMMITTEE ON THE 1990 FARM BILL: JULY 12, 1989

Thank you, Mr. Chairman and members of the Committee. My name is Helen Waller. My husband, Gordy and I raise wheat, barley and have a livestock operation in eastern Montana. I am the Chair of the Agriculture Policy Committee of the National Family Farm Coalition (NFFC), where I serve as representative of the Western Organization of Resource Councils. The NFFC has a membership of over 40 farm and rural organizations in 35 states who are committed to preserving and strengthening the family farm system of agriculture.

I appreciate the opportunity to be here today and present the position of the NFFC. The Coalition has several committees, comprised of representatives from different regions of the country, who have been working on a variety of issues for the 1990 Farm Bill. In particular, we are very interested in the commodity provisions, dairy, trade, ag research, corporate concentration, farm credit, and the pressing need to address the shrinking number of minority farmers in America.

We strongly support this Committee's efforts to get the writing of the 1990 Farm Bill underway and ensure that there is adequate time for debate and input here in Washington and through field hearings around the country. Farmer participation is always important. Especially in light of the Administration's position in the international trade situation and actions at the GATT negotiations, it is critical that ample opportunity exists for farmers' voices to be heard.

We would like to take this opportunity to present our assessment of the current situation and the effects of the 1985 Food Security Act. I would then like to give you our initial recommendations for the 1990 Farm Bill.

Many family farmers are seriously questioning the effectiveness of the 1985 farm program. It was supposed to increase our exports, decrease government costs, reduce surplus stocks, and increase farm income. Exports may have increased but only with the taxpayer subsidized sales through the Export Enhancement Program (EEP) which increased the volume, but not the value of the product. Our grain surpluses are down, not due to successful administration of the Farm Bill, but due to devastating drought and continued sales of our dwindling reserves. Average net farm income has only increased from $30.5 billion in 1985 to $31.0 billion in 1987. That is only a 1.6% increase despite the infusion of over $40 billion in government costs.

For many family farmers, rural communities, the consumer, and the taxpayer the 1985 Farm Bill has been devastating. According to the American Bankers Association, 484,000 family farms have gone out of business since 1985. 2,500 farms are going out of business each week. In Montana, 28 farms per week are now being liquidated, up from 23 per week last year. Black farmers are losing their land at a rate of 1,000 acres per day, a rate that will leave them landless by the end of the century.

Many farmers in 1989 are still suffering from the aftermath of last summer's drought or are facing another one this summer. While we recognize the efforts of this Committee in adopting the Disaster Assistance Act of 1988 and its extension for 1989, however there have been tremendous losses not compensated by drought relief.

The majority of any increase in net cash income is due to direct government payments. Even so according to a March 1989 GAO report, this level only rose slightly from $39 billion in 1985 to an estimated $43 billion in 1988. The other reason for higher prices is the worst drought in 50 years; for most farmers increased prices were more than offset by loss in production. For those few farmers not hit by the drought, the increase in market prices helped those farmers cashflow, often for the first time in many years.

Rural communities have not benefitted from the 1985 Farm Bill either. Rural poverty levels are now 35% higher than those of urban areas. Nearly 17% of rural Americans currently earn below the poverty line. The economic downslide has created a continual out-migration from our rural communities. According to USDA, nearly one million persons left rural areas from 1986 to 1987, up from 630,000 the previous year.

Over 1.6 million people are unemployed in rural areas, and it's no surprise that the rural community infrastructure is showing signs of decay. More than half of the hospital closures in 1988 were in rural areas. According to the Environmental Protection Agency, the latest estimates of sewage treatment needs in rural communities indicate a backlog of over $28 billion in unmet needs.

The economic distress continues to create family stress. In 1987 in Iowa, there were 14 suicides per 100,000, the highest since 1958. Just this past Friday in North Carolina, a Farm Credit System borrower, having given up hope to work through the debt restructuring process, committed suicide on the steps of FCS.

Consumers were supposed to benefit from the 1985 Farm Bill. We know from past history that farm prices do not have a strong correlation with grocery store prices. As farm prices have fallen, retail prices have continued to climb. During last summer's drought, consumer prices of several cereal products substantially increased, with the explanation from food processors that it was caused by the drought. Something is definitely wrong when farmers are going broke and increasing numbers of urban and rural families cannot afford to feed their families. This is happening while food processing companies are reaping record profits. During the debate over the next Farm Bill, we urge this Committee to examine what is happening between the farmgate and the grocery check-out line.

The taxpayer has been footing the bill for a federal farm program that is neither keeping food costs down nor farmers on the land. Taxpayers spent $44 billion in the last 3 years of the 1981 Farm bill. The first three years under the 1985 Farm Bill, taxpayers spent $49 billion. Direct payments to farmers jumped to $32 billion in 3 years, compared to a total of $25 billion over the previous four years. These 1985-88 totals would have been much higher if it hadn't been for the drought, which knocked $10 billion off the total of direct payments due to price increases. Taxpayers have also invested a lot in trying to expand our exports. In 1987 we used tax dollars to assist with 68% of wheat and flour exports and 22% of feed grain exports. This is compared to 46% and 11% respectively in FY 1985. In FY 86, 87, 88, and 89, taxpayers spent $31.1 billion, as compared to $19.0 billion for the previous four years to stimulate exports.

I speak for farmers who feel there needs to be a major shift in the direction of policy if we are to sustain a family farm system of agriculture through the 1990's and into the next century. We want Congress to adopt a farm policy that benefits family farmers, consumers, the environment and taxpayers.

The National Family Farm Coalition supports policies that enable farmers to receive a fair price at the marketplace which is achieved by setting price support levels based upon the cost of production. At the same time, we strongly support a supply management program that would balance our supply with demand. Each provides a specific and separate function and both are necessary in order for a farm program to work.

I want to be clear that we are not talking about restricting supply through supply management to drive up prices. Supply management that really works makes good sense. It is good for the environment and it controls government costs. A fair price at the marketplace makes good sense. Why continue to subsidize the grain traders so they can sell our grain at below cost in an attempt to expand our markets yet destabilize other country's economies. This is in addition to record trade deficit. Our policies should not and cannot dictate or control production in other countries. Furthermore, all we're really doing is losing money and sacrificing our soil and water quality. It doesn't make any sense.

A program of supply management should be based on production units, eg. bushels, pounds or bales, instead of solely on acreage set-asides. Marketing certificates would be issued based on necessary demand and established yields. Targetting benefits to family-size farmers could be accomplished through certificate allotments.

This policy increases net farm income and reduces taxpayer expense by eliminating the need for deficiency payments and excessive CCC storage costs. There is no surer way to address the concern about groundwater contamination and environmental and health risks of chemicals than to implement a bushel-based supply management program that assures farmers a fair price from the marketplace.

The environmental consequences of high chemical use over the last 3 decades are going to be borne by society overall. Consumers, farmers, and environmentalists are calling for new policies that will enable farmers to shift their farming practices. We strongly believe that when family farmers receive a fair price for what they produce, they are the best stewards of the land. We live closest to the land and are directly affected by our farming practices - in the water we drink or from the chemicals we must apply. If given a choice, we would much rather limit chemical use, but for many farmers debt payments coupled with prices below the cost of production have made the risks too great to change from high chemical use. The risk of possible reduced yields per acre during the transition has seemed too great when up against the lender's yield expectations.

We recommend that the 1990 farm program include strong economic incentives for farmers making the transition to lower chemical agriculture. These incentives should apply to family farmers of all sizes and types of production. In addition, there is a great need to address the current program barriers to farming with fewer chemicals and in a more sustainable way. For example, farmers who employ crop rotations and utilize legume crops to enhance their soil quality should not be penalized by a reduction in base. As an attachment to this testimony, I am including the Coalition's position paper on sustainable agriculture, which outlines our general recommendations for moving in this direction.

Consumers are increasingly concerned about the quality of their food and how it is produced. The recent surge in purchases of "organic" produce and products demonstrates this consumer concern. We feel that there should be a federal minimum standard of "organic" defined that is acceptable to organic producers to minimize market and consumer confusion about what actually constitutes organic.

As a nation, we are now in a situation of tight supplies resulting from last summer's devastating drought and the ongoing sales of dwindling stocks through the Export Enhancement Program. These subsidized sales not only threaten our reserve stocks but are expensive to the taxpayer. Given this situation, it is especially important to ensure our nation's food security, and the best way to accomplish this is through a supply managment program.

Despite the lowest dairy stock levels in years, dairy farmers are scheduled for a $.50 cut/hundredweight in their milk price on January 1, 1990 according to the 1985 legislation. At the same time, CCC purchases are so low that basic government responsibilities are not being met. There is clearly not a surplus. We strongly support a recalculation of CCC dairy purchases so that necessary government program needs are not counted in the calculation of "surplus." This provision has been introduced in Congress by Rep. Boehlert (R-NY) and is a component of our Dairy Committee's proposal.

The continuing credit crisis of the 1980s was addressed legislatively by the passage of the Agricultural Credit Act of 1987, which included borrowers' rights provisions for the Farm Credit Administration and the Farmers Home Administration (FmHA). This legislation was a ray of hope for hundreds of thousands of FmHA and Farm Credit System (FCS) borrowers. The law promised the opportunity to restructure their debt and continue farming when it was the least cost alternative to the federal government. The past few years have been a jigsaw puzzle for far too many borrowers who have been trying take advantage of their new rights that were supposed to have been secured by the legislation.

Over 70,000 delinquent FmHA borrowers received their restructuring notices over Thanksgiving last year. Of the 36,000 borrowers that returned their applications within the 45 day deadline, only 3,166 had been offered debt restructuring with a write-down as of April 24. By this same date, almost 14,000 borrowers were offered net-recovery buyout which is merely an option to buy without any FmHA financing. It is distressing that so few borrrowers have received the kind of debt restructuring envisioned under this Act.

Of utmost concern is FmHA's method for calculating the least cost alternative. Our understanding is that FmHA is projecting 5% per year commodity price cuts and 5% annual increases in the cost of production. Numbers such as these make it almost impossible for anyone to cashflow. Senator Conrad has requested that GAO prepare an analyses of the DALR$ program, the computer system used to determine borrower eligibility/for the different options under the legislation.

The next round of notices will be sent out in September to the more than 20,000 borrowers that became delinquent on January 1, 1989. This high number of delinquencies in farming states such as Iowa with 2,034, Minnesota with 1,478, North Dakota with 1,800, South Dakota with 1,259, Oklahoma with 1,495, Texas with 2,407, Wisconsin with 1,598, Illinois with 1,489, Mississippi with 1,964, Tennessee with 1,322, and Nebraska with 1,039 raises many concerns about the aftermath of last year's drought and the ongoing credit situation of many farmers.

The implementation of the law by the Farm Credit System raises numerous concerns. Most recently, farmers have been denied their restructuring rights and the right to sue FCS. The court's recent interpretation of Congress' intent on a farmer's right to sue removes FCS one step further from any public accountability.

We urge this Committee to closely monitor the implementation of the 1987 Agricultural Credit Act and look forward to working with the Committee in developng credit reforms that for the 1990 Farm Bill that may be necessary to ensure that as many borrowers as possible benefit from the provisions of the Agricultural Credit Act of 1987.

In closing, I would emphasize that if America is committed to a system of food production based on family-owned and operated farms, then Congress must take a bold step and forge a new direction based on fair and profitable prices at the marketplace. Future farm programs can ensure economic stability so that the staggering statistic of 2,500 lost farms per week becomes history. This is the only way that our rural American culture can survive.

We look forward to working with you during the upcoming debate and passage of the 1990 Farm bill. Thank you.

TESTIMONY OF CHUCK HASSEBROOK
ON BEHALF OF THE CENTER FOR RURAL AFFAIRS
AND THE SUSTAINABLE AGRICULTURE COALITION
TO THE
HOUSE COMMITTEE ON AGRICULTURE

JULY 12, 1989

Mr. Chairman and members of the Committee, thank you for the opportunity to speak before you today. The Center for Rural Affairs is a research and advocacy organization based in Walthill, Nebraska and committed to stewardship of the natural environment and strengthening family farms and rural communities. The Sustainable Agriculture Coalition includes 10 midwestern sustainable agriculture organizations which work directly with farmers in policy reform and on-farm research efforts, including the Alternative Energy Resources Organization, Illinois Sustainable Agriculture Society, Land Stewardship Project, Michael Fields Institute, Minnesota Food Association, Minnesota Project, Nebraska Sustainable Agriculture Society, Northern Plains Sustainable Agriculture Society and Wisconsin Rural Development Center, as well as the Center for Rural Affairs.

I commend you for convening this discussion. The Farm Bill is a powerful force in shaping agriculture and rural life. Its broadest implications must be considered has you move forward in considering and drafting legislation. The central theme of my testimony is that the purposes and goals of the public involvement in agricultural must be clearly defined by Congress and specific provisions must be crafted to advance them. Those goals and purposes should include increasing the number of opportunities for people to own and operate farms, enhancing rural community vitality, protecting our soil and water resources to enhance long term food security and environmental quality and improving human health, as we advance broader economic goals of improving efficiency and maintaining competitiveness.

Writing the farm bill is, in a sense, a form of social planning. The choices you make in this process will profoundly shape our rural economic and social structures, the natural environment and even human health. If we are to achieve the kind of agriculture and society we want, these decisions must be made with consideration of broad social and environmental goals.

Goals and Purposes of the Farm Bill

I propose that you aim the farm bill at achieving the following goals and purposes:

- Maximize the number of opportunities for self employment in agriculture and rural communities and enhance an economic and social structure free of great inequality. A substantial body of sociological research indicates that a dispersed farm structure with many owner operated farms creates healthier communities than a large farm structure. University of California researchers have summarized these findings as follows:

> As farm size and absentee ownership increase, social conditions in the local community deteriorate. We have found depressed median family incomes, high levels of poverty, low education levels, social and economic inequality between ethnic groups, etc., associated with land and capital concentration in agriculture. . . . Communities that are surrounded by farms that are larger than can be operated by a family unit have a bi-modal income distribution with a few wealthy elites, a majority of poor laborers, and virtually no middle class. The absence of a middle class at the community level has a serious negative effect on both the quality and quantity of social and commercial services, public education, local governments, etc. (MacCannell, 1983)

- Prevent environmental contamination and resource depletion, and protect long term food security. Over one hundred and seventy million acres of U.S. farmland were eroding faster than new soil is formed, threatening long term food production potential. (USDA, 1987) (This data predates implementation of the Conservation Reserve Program and other conservation provisions of the 1985 Farm Bill and consequently may overstate the current situation.) In many farm states 20 to 30 percent of all rural wells have nitrate concentrations in excess of established standards, largely from chemical fertilizers. To date, the Environmental Protection Agency has found 74 different pesticides in the ground water of 38 states including Nebraska (EPA, Dec. 1988 - Based on the agency's Pesticides in Ground Water Data Base). Heavy dependence on petrochemicals has increased the vulnerability of American agriculture and world food supplies to the ongoing depletion of national and world petroleum supplies.

- Enhance human health. Numerous epidemiological studies have shown a strong correlation between various types of cancer, especially leukemias, and farming or living in agricultural areas. (Strange, Krupicka and Looker, 1984) Studies by the National Cancer Institute and the University of Kansas indicate that farmers who are exposed to herbicides for more than 20 days each year are six times more likely than non-farmers to develop cancerous tumors known as non Hodgkins lymphomas. (*The Furrow*, 1988)

- Enhance efficiency and maintain our competitiveness, as we address social and environmental concerns.

The nation's agricultural policy can advance each of these goals simultaneously if we design it to do so.

Legislative Recommendations

Target Farm Program Benefits - In this time of federal spending constraints, it is vital that we design programs to get the greatest benefit out of each dollar. More effectively targeting and capping farm program benefits would protect moderate sized family farms most in need of farm program benefits from budget cuts. Ultimately, it would make federal farm programs more effective in creating economic opportunity for people in agriculture. Targeting program benefits would enhance the ability of moderate sized and beginning farmers to compete for land and farm resources with larger operations.

In particular, we propose that new limits be placed on the volume of production fully supported by the program, in the range of $80,000 to $100,000 worth of program commodities. Larger farmers would continue to receive deficiency payments on production above that amount at a lower rate (up to the $50,000 payment limitation), to encourage their participation in conservation and production control programs. Diversified farms producing 80,000 to 100,000 of program crops, in addition to livestock and other nonprogram crops grown in rotation, are big enough to be efficient and support a family decently. Providing payments to help farms grow beyond that size encourages farmers to expand already adequately sized units and absorb land that might otherwise be available to smaller farmers and young people who want to get started in farming. In short, by better targeting payments we'll get more family farming, which is what the program is supposed to be about. In addition, we propose that farm program payments be phased out as as the total non-farm income of an eligible producer increases to between the national median income and two times the national median income, or total income increases to between two and three times the national median income.

Likewise, we must refocus the Farmers Home Administration on creating opportunities in agriculture. Over the last six months, one official report after another has documented FmHA abuses. Unfortunately, many of these reports have missed the mark, and none of them point to the kind of program restructuring that is needed. Attached is a copy of the programs we would propose for the "new FmHA" we feel is needed. (Appendix A) Half of the nation's farming assets are held by older farmers who will be retiring over the next ten years. One constructive role the agency could play is to link these retiring farmers and their land to beginning farm families who need it.

Reform Commodity Programs to Reward Sustainable Farming Systems

Sustainable farming systems have the capacity to create a more socially and environmentally sound agriculture. These systems typically involve practices such as crop rotation and planting of cover crops to meet nutrient needs, reduce pest problems and conserve soil. They are sophisticated and knowledge and management intensive. These systems require a better understanding of natural systems to enable farmers to adjust their management practices to work in concert with nature, to avoid problems and reduce the need for expensive and often dangerous farm chemicals. They seek efficiency by enhancing the role of people in agriculture and making it possible to reduce capital expenditures and input use through more intensive application of skilled labor and hands on management. Whereas industrial systems seek to reduce costs by replacing two dollars worth of time with one dollar worth of inputs, sustainable family farm systems seek to improve efficiency by replacing two dollars worth of inputs with one dollar worth of time. Because these systems rely on sophisticated and highly motivated labor able to exercise judgment in the field and barn, they are well suited to an owner operator structure.

The current farm program penalizes farmers who use sustainable systems and practices such as crop rotation. For example, Iowa State University Economist Michael Duffy found that under the current farm program, Iowa farmers can maximize their returns by planting continuous corn with heavy petrochemical use. Without the program, Duffy found that the same farmers would maximize profits by rotating corn, soybeans and oats/clover and reducing petrochemical use. Such a program makes little sense when the nation is idling land to reduce corn supplies and facing a long term petroleum shortage and growing water contamination by farm chemicals.

However, we do not advocate eliminating farm programs or decoupling payments from farm production and practices. The free market does not reward stewardship of natural resources. Instead, we advocate recoupling programs to encourage and reward stewardship of resources and protection of the environment. We believe Senate legislation introduced by Senator Wyche Fowler, takes a number of good steps in this direction. We discuss some additional proposals in the attached packet of policy options papers prepared by the Sustainable Agriculture Working Group (Appendix B), particularly the paper prepared by Ron Kroese of the Land Stewardship Project. Incidentally, not all of these proposals cost money. Our proposal for capping the percentage of planted acres on which any producer may receive payments for planting the most soil depleting and expensive program crops would save money as it encourages more sustainable crop rotations.

Agricultural Research

We urge that you set as your first priority for the research title of the 1990 farm bill, articulation of the goals and purposes of the federal investment in agriculture research, including formula funds, competitive grants and all other federal agricultural research funds. Those goals and purposes should include those presented earlier in this testimony for the structure of agriculture, human health and environment. In addition, we recommend that you define procedures to ensure that these goals and purposes are reflected in the research priority setting process. That should include requiring an annual report of the Agriculture Research Service and each land grant experiment station describing its efforts to incorporate these goals in its research priority setting process. In addition, we propose that the the USDA Joint Council and Extension Users Advisory Board report annually on how they have incorporated these goals in their plans and recommendations.

With respect to competitive grants for agricultural research, we recommend that Congress direct the administering bodies, including USDA and the National Science Foundation, to incorporate these goals both in their calls for proposals and criteria for evaluating proposals. That may require giving them the authority to spend a portion of their funds on research to assess likely impacts of alternative research directions. The result might be calls for proposals that list areas of research deemed to be especially appropriate, and criteria that reward research in such areas.

We also support a substantial increase in the commitment to the Low Input Sustainable Agriculture Research Program (LISA). The program has a strong track record, but as a member of the North Central Region Technical Committee which reviews proposals for the program, I have found it to be grossly underfunded relative to the cost of quality proposals submitted. More detailed recommendations are included in the policy option paper on agricultural research, included in the attached packet.

In addition, I draw your attention to the attached option papers on federal soil conservation and groundwater quality policy. The recommendation therein seek to build on and strengthen the commitment to resources protection established by the Congress in the 1985 Farm Bill Conservation Title.

Conclusion

If the farm bill is to yield a desirable structure of agriculture, long term food security, vital rural communities and environmental and human health, Congress must clearly define these as the public purposes it is to serve and design policies toward those ends. Ultimately, urban support for farmers and farm programs will depend on effectively designing programs which advance these broad public purposes.

MacCannell, Dean, 1983, "Agribusiness and the Small Community", Background paper to *Technology, Public Policy and the Changing Structure of American Agriculture*, Office of Technology Assessment, US Congress, Washington, DC.

Strange, Marty, Lis Krupicka and Dan Looker; 1984, "The Hidden Health Effects of Pesticides", in *It's Not all Sunshine and Fresh Air*, Center for Rural Affairs, Walthill, NE.

USDA, 1987; The Second RCA Appraisal.

It Is Time For A New Farmers Home Administration

The following ideas for a "New FmHA" are based on our own 10-year analysis and monitoring of the problems of the Farmers Home Administration. The proposed reforms take into account the important fiscal realities of the federal government and are designed to get the "biggest bang for the buck."

Importantly, the ideas are based on the belief that federal farm lending programs should be developed as part of an overall federal rural development strategy. In the agriculture-dependent counties of much of the midwest, farming is the main economic resource, and the economies of farms and towns are inevitably and naturally linked. Moreover, the economic health of this linkage is directly related to the number, scale and ownership patterns of the farms that surround the towns. As you can see from the suggestions below, we feel that FmHA's farm lending programs should focus on maximizing the potential of this economic linkage by focusing on creating new business opportunities on the land. Our view of the "New FmHA" is dramatically different from the views currently being pushed by some recent reports on FmHA, and it's clear that an important legislative battle is looming over the future of FmHA and federal farm credit programs.

Farm Ownership Loans

Since the Rural Resettlement Administration was created in 1935, the federal government has been directly involved in providing credit to beginning and small size farmers for the purchase of farms. FmHA has helped hundreds of thousands of farmers to start and in some cases retain their farms. FmHA's farm ownership (FO) lending has been very successful in both providing assistance to farmers and in keeping low the cost to the government.

The direct FO lending program has been and is working, but its funding has been cut so low that very few loans can now be made. The cuts have been made both for budget and ideological reasons. The Reagan administration seemed to oppose all involvement in agricultural credit but compromised, at least temporarily, by working to shift FmHA from direct to guaranteed lending. Unfortunately, the administration was successful. The budget constraints are real enough but, even here, some of the arguments are based on misinformation and ideologically based. What follows is a proposal designed to reinvigorate FO lending within existing budget constraints.

Typically, FmHA has lent 100% of the purchase price for land and congressional appropriations must fund the entire price. At current direct FO appropriation levels, relatively few FO loans can be made (950 in FY 1989). A new approach to FO lending is needed, one that leverages FmHA involvement and addresses an evolving demographic situation in which 50% of the U.S. farm assets is owned by farmers who will retire in the next 10 years.

As an alternative approach to the current 100% FmHA lending, we propose an approach which involves FmHA in real estate lending through participation loans with retiring farmers. In this approach FmHA would make "down payment loans" of 20% of the purchase price of land owned by retiring farmers while FmHA-eligible buyers would contribute an additional 10% down (making a total 30% down payment). The retiring farmers would receive the 30% down payments and carry the remaining principal in land contract-like mortgage agreements. FmHA's loans to borrowers would be secured by second liens and repaid with no interest over a ten year period. The land contracts would be scheduled for a 30 year repayment with a balloon after 10 years which would be refinanced with commercial loans. FmHA

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assistance--a 10 year interest free loan--would allow buyers to build enough equity to graduate to commercial credit, but would also be much less expensive to the government than the current 100% financing at the limited resource interest rate. (The current LR rate is 5% and is meant for specially disadvantaged borrowers.)

...an important legislative battle is looming over the future of FmHA and federal farm credit programs.

Whatever the level of appropriation, the down payment approach would create 5 times as many farming opportunities as does the current 100% approach. The direct FO appropriation should also be augmented by reallocation from guaranteed loan funds. (see below)

Operating Loans

The direct operating loan (OL) limit should be lowered from $200,000 to $100,000 per borrower. It was a mistake for Congress to raise it in 1985, and lowering the ceiling means that a given appropriation would assist many more farmers. Given FmHA's mission of helping to provide as many farming opportunities as possible and likely continued budget problems, this limit is reasonable. The lower limit is also better targeted to the needs of beginning, re-entry and other disadvantaged family farmers FmHA was created to assist.

Low input sustainable agriculture is receiving increased attention, primarily because of concern about the degradation to soil and water from the use of most conventional production methods. Both FmHA OL and FO loan programs could be designed to encourage the use of sustainable practices by entry and reentry borrowers. While the loan programs should not focus exclusively on the use of sustainable practices by FmHA borrowers, the time of beginning a farming operation is especially appropriate for adopting these practices for two reasons. First, all borrowers eligible for FmHA assistance should, by definition, have limited financial resources, and low input practices are less capital intensive than conventional practices. Second, beginning farms and smaller farms expanding to family size have no or relatively small investments in conventional technology so they have more flexibility to try new production techniques than do established farming operations.

Rural Housing Rehabilitation

Current FmHA housing program loans are usually not of assistance to farmers in helping to provide affordable housing, but in most parts of rural America there are many existing houses which need repair yet are still basically sound. A new component of either the FO program or of the rural housing program should be to provide modest loans to rehabilitate existing modest houses in rural areas. Loans of not more than $20,000 to improve houses with preimprovement values of $20,000 or less would be a significant step toward preserving investments already made in rural areas. Depopulation of rural areas gets locked into place when sound housing is allowed to deteriorate. The loans would fill an existing credit gap and should be limited to improvements to or replacements of basic structural components such as foundations, roofs, windows, insulation, wiring, heating and dry wall.

Emergency Lending

FmHA's farm lending has received extensive criticism in recent months because of the agency's large loan losses. The criticism lumps large farm emergency loans with family-size FO and OL loans. Even the most elementary analysis would have shown that FmHA family farm borrowers have proven to be among the least risky of all FmHA's borrowers. The big farm program losses are not in the family farm-targeted FO and OL programs but in FmHA's emergency loan programs. Loans in the FO program in particular have been very solid. In fiscal year 1988 over half (57%) of the outstanding loan principal in FmHA's big farmer Emergency Disaster loan program was delinquent ($4.8 out of $8.4 billion). Losses are similarly large in the Economic Emergency program. In contrast, only 8% of the outstanding FO principal was delinquent ($600 million out of $7.3 billion). Both of the emergency programs have in the past been characterized by high (or no) individual loan ceilings and no family-size farm targeting. While Congress in 1985 did place a family-farm size requirement on the Emergency

FmHA's FO lending has been very successful in both providing assistance to farmers and in keeping low the cost to the government.

Disaster program, these two largely untargeted programs have resulted in massive agency losses and little assistance to their borrowers, and they are in large part responsible for FmHA's current disrepute. If emergency lending is done at all (and crop insurance could possibly eliminate all need for it), it should be done through and under the restrictions of the OL program.

Borrower Training and Loan Assessment

FmHA's traditional mechanism of "supervised credit" has not worked well for two reasons. First, the 1970s saw a dramatic expansion of FmHA's loan programs which resulted in little if any time for FmHA employees to provide supervision. Second, the 1970's "go-go" lending was based on the idea that land values, and therefore borrower equity, would increase indefinitely. Congress' EE program imposed this mentality on FmHA, and as cash flow and management became less important, credit supervision tended to deteriorate to collateral supervision rather than borrower training.

The borrower training and loan assessment component of this proposal recognizes this failure by requiring that FmHA contract with outside credit counselling services to provide borrower training and loan analysis. The analysis would be operation-specific, define operation goals and specifically ask "can FmHA credit help this borrower achieve these goals within a reasonable timeframe?" In connection with this new emphasis, FmHA should be required to develop new loan documents which would be introduced in the training and assessment process. Currently used forms are inadequate.

Loan Graduation

FmHA lending has always anticipated graduation to commercial credit for the following reasons: (1) it signals the end of FmHA's temporary assistance and the creation of a commercially viable farm operation; (2) it restores lending funds to FmHA's revolving loan fund so that new applicants' loans can be funded; and (3) it assures that FmHA is not competing with private lending sources. Neither law nor regulation sets explicit standards or goals for graduation. In theory at least, the minute a borrower can get commercial credit, he or she must graduate. The lack of standards, goals and the unplanned nature of the current graduation approach have weakened its value and decreased its use. To improve this situation, graduation should be planned at the beginning of each new FmHA loan as a part of the borrower training and loan assessment process. These standards should be flexible enough to allow for an economic downturn, weather-related disasters and other circumstances beyond a borrower's control, but firm enough to keep all parties attuned to meeting loan and graduation goals.

Federal farm lending programs should be developed as part of an overall federal rural development strategy.

Guaranteed vs Direct Lending

The Center For Rural Affairs has, over the years, consistently pointed out the disadvantages of guaranteed lending. Briefly, guaranteed loans are inappropriate for most FmHA borrowers because their interest rates, cash flows and collateral requirements are too high and because, under the guaranteed approach, too many eligibility decisions are made by commercial lenders acting on private portfolio consideration rather than on working for a public good. A recent USDA Office of Inspector General (OIG) audit supports this analysis by stating that 99% of the 15,585 guaranteed farmer program loans made between October 1, 1985 and June 7, 1987, were made to farmers who were already borrowers of commercial lenders. The other one percent went to FmHA direct loan borrowers shifting to FmHA guaranteed loans. This record shows that guaranteed loans have served neither to help direct loan borrowers shift to commercial credit nor as a beginning farmer program.

Attempts to mold guaranteed loans to the needs of FmHA borrowers have so far met with little success. The OIG suggested that the guaranteed loan program be changed to make it more attractive to commercial lenders, but past efforts like the approved lender program and the matching interest buydowns have had little, if any, effect on guaranteed lending.

When direct loans are not available, many and perhaps most of those needing FmHA assistance are excluded. The OIG's conclusion is that direct loan borrowers have and will have no place to go for credit if direct lending is decreased and/or eliminated. The decision to emphasize guaranteed lending represents an abandonment of FmHA's public purpose and turns FmHA into more of a bank guarantee agency than a farm lending agency. This policy must be reversed. If guarantees are used in the future they should be used only as part of a graduation process.

The above items are the major components of our "New FmHA" proposal. While still incomplete, the proposal represents an effort to chart a new course for the agency--a course which is no more than the reestablishment of FmHA's basic mission. <>

(Appendix B is held in the committee files.)

HOUSE AGRICULTURE HEARING
1990 FARM BILL
JULY 12, 1989

Oral and Written Testimony
by
Alice Parker, National President
Women Involved in Farm Economics

Thank you Mr. Chairman and Committee Members.

I am Alice Parker, National President of Women Involved in Farm Economics (WIFE). I am from Royal' City, Washington. My husband and I own and operate a 315 acre diversified irrigated farm. We grow program crops such as wheat and corn in rotation with non-program crops such as dry edible beans, vegetables, alfalfa, and seed crops. I am involved in almost every aspect of the farm from doing the financial and record book keeping to helping irrigate or driving the tractor or truck. I share the responsibility of making decisions regarding the farm operation.

WIFE is a grassroots organization striving to achieve prosperity for agriculture and the nation through education, communication, legislation and cooperation. WIFE has state associations in 20 states, with members at large in nearly every state. WIFE is structured so that there are local chapters, state associations and the national association. We have a very good working network between the three levels of membership.

I am pleased to have the opportunity tc speak to your committee on behalf of the Members of Women Involved in Farm Economics (WIFE) regarding the 1990 Farm Bill.

Being involved in the development of 1990 Farm Bill is a priority for WIFE. At our 1988 National Convention we had two members of your House Agriculture Committee Staff participate on a panel that addressed The writing of the 1990 Farm Bill. I want to thank you for allowing them to do this for us.

Those of us in production agriculture have seen changes since the enactment of the 1985 Food Security Act. We have seen huge reductions in our stockpiles and increases in farm commodity prices over the last year. But that does not mean that all is well down on the farm and that nothing needs fixing.

Although my commodity prices increased so did my costs. At the beginning of 1988 I was paying 10.75% interest on my operating loan. By the end of 1988 it had risen to 12.75%. My water, power and fuel costs as well as employment taxes also increased. These costs did not help us recover from the disaster our farm experienced in 1980 when Mt St Helens erupted. The profit margin today does not allow for any type of disaster or mistake.

The huge stockpiles have been reduced. The Export Enhancement Program has been a contributing factor but the severe drought over a large portion of our country certainly played a major role in that reduction.

The disaster program helped farmers financially but it did not heal all the wounds. Too many areas such as Montana, and the Dakota's experienced drought conditions prior to 1988. For those previous years there was no help.

Now the drought is broken in some areas, but weather conditions such as flooding and hail are taking it's toll on the 1989 crop. Farmers are truly at the mercy of Mother Nature.

With the budget constraints our Federal Government has, I hope that a good Federal Crop Insurance Program will be implemented that is economically feasible so that farmers can participate in the program. There needs to be a mechanism for protecting a farmers investments from these natural disasters.

Statistics that shows farmers debt load has been reduced and farmers are again buying new equipment. These facts are true but are somewhat misleading. Let me explain.

One reason for the reduction in debt load is farmers were not buying replacement equipment. With the high cost of repairs and labor, farmers are now being forced into buying. There comes a time that it is economically unfeasible to repair or rebuild old equipment. Down time on the farm can be as costly as new equipment.

The 1985 Food Security Act created some unfavorable impacts. It created an atmosphere that found farm operations such as ours raising program crops rather than the non-program crops.

When it was announced that non-program crops could be grown on conserving use acres, reports of those acres going into dry edible beans dropped the price immediately. Many acres went into alfalfa and coupled with the dairy herd buyout we soon found ourselves with a surplus of alfalfa hay. This provision helped one segment of farmers while doing harm to others. Consequently we found non-program crop producers shifting to the program crops. I hope that policy in the 1990 Farm Bill will not find commodities being pitted against one another.

Producers who had established base acres by using program crops in their rotation plan were told by bankers that we should participate to the maximum as that was the only risk free income we had. Participating in the program to the maximum prevented us from using best management practices. Wheat and corn became the major crops and our rotation plan went by the wayside.

The economies of our rural areas are depressed and we are loosing our schools and medical facilities. The local tax base has been eroded. Our rural roads and bridges have deteriorated to the point they are unsafe. Repairs to rural roads and bridges are a must if the food supply is to be transported to areas where it is needed. Extended rail service could be re-established to reduce the weight load off our roads and bridges.

Rural Development is essential if Rural America is to remain viable. Wife believes that agriculture should be the main focus of any development since agriculture is the economic base for most rural communities. Industries are needed that process our raw commodities into value added products for export markets. We can become energy independent and clean up the air by producing renewable fuels. Many things can be done to support Rural America and agriculture but it will take financial help.

The 1990 Farm Bill will cover many areas and WIFE has policy that addresses many of these issues. I am including a copy of WIFE's Position Paper for background information. I would be willing to discuss any of this information with you but I would like to spend my time today addressing two issues that are of utmost importance to WIFE.

1. Recognition of the farm wife's position in the farm operation; and
2. Food Safety and Groundwater Contamination

In June of 1987 WIFE filed a suit against the United States Department of Agriculture and the ASCS regulation Sec.7 C.F.R. 795.11 that states a "husband and wife will be considered one person". In March of 1988 Judge Joyce Hens Green ruled in WIFE's favor. She held that the regulation treating a husband and wife "one person" clearly violated Congresses statutory directives as set forth in various farm bills dating back to 1970. The USDA appealed that decision. On June 2nd of this year the U.S. Court of Appeals. District of Columbia Circuit overturned Judge Greens decision and ruled in favor of USDA. (for more information see attached Backgounder, WIFE vs USDA Lawsuit)

WIFE was very disappointed with the latest decision and believes that this unfair regulation should be changed though separate legislation in 1989 or a part of the 1990 Farm Bill. We solicit the help and support from you the House Agriculture Committee in correcting this discrimination.

The provision adopted by Congress in 1987 as a part of the Budget Reconciliation Bill corrected a portion of the regulation when it gave a farm wife "status position" if she acquired her land previous to marriage. It did not address the farm wife that acquires her land after marriage nor did it address the farm wife who is actively engaged in a farm operation. The present statute seriously puts farm wives at a disadvantage and discourages women from becoming involved in farm enterprises.

Women are acquiring land and farm operations after marriage such as our past president Naioma Benson. She was gifted land from her parents when they retired from farming. She has not been allowed by ASCS to keep that as her sole and separate farm operation. She was required to commingle it with her husbands operation.

A farm wife recently inherited a farm upon the death of her parents. The farm had a CRP contract on it. She and her husband own a farm which had a CRP contract also. She was not included on the contract with her husband since she was a married woman. She was told that she would not be able to keep her inherited farm her sole and separate property but that it would be commingled with the one under her husband's farm number. This put them over the $50,000 limitation so she was denied the CRP payment on her farm she inherited from her parents.

A member of WIFE stated that she and her sister will inherit her parents farm. She will be unable to qualify for a "person status" since she is married to a farmer, but her sister will because she is not married to a farmer.

A farm wife contacted me recently and stated that she was a working partner in their farm operation but was not given a "person status". Across the road from their farm, two brothers farmed together and each one had individual "person status. She asked why am I denied a "person status" when I am contributing as much to that farm operation as any other individual might be in a corporation or partnership.

A father and son or father and daughter (if not married to a farmer) meets the criteria they qualify for a separate "person status". It is just the farm wife, who has no opportunity to hold a "person status".

Farm wives are required to sign all operating loans and are just as responsible for those debts as our husbands. Although according to ASCS rules we as farm wives are not eligible to receive any program benefits.

I personally live in a community property state. I do most of the book work that goes with any sign up as to the farm programs. To sign any papers at the ASCS office I have to have a Power of Attorney from my husband, but my husband does not have to have one from me.

WIFE is not asking that every farm wife be given a payment limitation. We are asking that a farm wife who meets the criteria established for other individuals be given a "Person

Status" and be eligible for program benefits. We are asking that if a farm wife acquires a farm, she be allowed to keep that her sole and separate property.

Prior talk about the 1990 Farm Bill has been centered around environmental concerns . WIFE shares these concerns but feel we have a different perspective tHen some of the special interest' groups have.

Farmers and Ranchers are the true environmentalists. We work with the environment everyday. We are dependent upon that environment for our livelihood. We have the most to loose if that environment is not protected. Therefore all the talk about how farmers are abusing the environment are only false statements.

We do want to protect our groundwater and food supply from contamination but legislation is not the answer; education is.

Modern technology has given us the ability to find out what is in our water but it has not given us the ability to determine which is natural and what is man made. High school chemistry taught us that nature is made up of chemicals and minerals. Therefore we will never have an absence of chemicals and minerals in the environment or food supply.

No one benefits from the scare tactics that are being used today regarding the safeness of our food and water supplies. The chemophobia out there is very real and something has to be done to quell that fear. A realistic approach in balancing the benefits and the risks is a must. I urge you, our leaders and our policy makers to base decisions on these issues on a risk/benefit ratio. We want everyone to be the winner therefore your decisions must be on facts and not on emotions.

On behalf of WIFE I want to say Thank You for giving us the opportunity to voice our concerns and ideas with you today.

I would be glad to answer any questions that you might have.

WIFE Women Involved in Farm Economics

BACKGROUNDER
WIFE VS USDA LAWSUIT

June 7, 1987
WIFE brings suit against the USDA and ASCS regulation Section 7. C.F. R. 795.11 which states a husband and wife will be considered one person in determining crop payment limitations. The Family Farm Defense Fund represents WIFE. WIFE argues a farm wife should be treated the same as any other adult farm participant and be allowed to apply for separate person status. Marital status should not be a discriminating factor.

November 1987
Several Congressmen try to change the regulation through legislative channels. House Ag Committee included language that would partially eliminate the marriage penalty.

March 31, 1988
JUDGE JOYCE HENS GREEN, UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA FINDS SECTION 7 C. F. R. 795.11 TO BE UNCONSTITUTIONAL UNDER THE FIFTH AMENDMENT AND IN VIOLATION OF THE ADMINISTRATIVE PROCEDURE ACT. USDA has until April 18, 1988 to comply.

Family Farm Defense Fund must dissolve for lack of resources. Covington & Burling, Washington, D.C. law firm agree to represent WIFE, on a pro bono basis.

April 18, 1988
Court decision fully effective. USDA has not indicated if they will appeal, but file a motion to alter and amend the decision. USDA motion requests the decision apply to only WIFE members at the time of filing and no woman living inside the Tenth Circuit of Federal Court. (Prior to this lawsuit, the USDA had prevailed in a suit concerning this regulation in the Tenth Circuit of Federal Court-Tenth Circuit includes Colorade, Wyoming, Kansas, New Mexico, Utah and Oklahoma.) USDA has 60 days to appeal decision.

May 25, 1988
Judge Joyce Hens Green denies USDA motion to ammend or alter judgement of March 31. Alice Parker, President, WIFE, Royal City, WA, states, "While we welcome any and all farm wives to join our organization, we feel no American farm wife should be discriminated against on the grounds of marital status, membership in a specific organization or the location of her home.

March 31-June 1, 1988
Reports come to WIFE the USDA is not honoring judgement of the courts.

June 7, 1988
Mitchell F. Dolin, (Covington & Burling, Washington, D.C.) files motion on behalf of WIFE seeking an order for Secretary Richard E. Lyng to show cause why he should not be held in contempt of court for delaying the March 31 ruling.

June 8, 1988
Secretary of Agriculture Richard E. Lyng responds to U.S. District Court order of June 3, 1988 by indicating in a press release that he will transmit compliance orders to the ASCS field offices by June 13, 1988. WIFE will monitor compliance.

USDA appeal court decision

November 19, 1988
Jennifer Divine, Covington & Burling, updates WIFE Annual Convention in Syracuse New York. Oral arguments in the appeal will be heard Feb. 7, 1989 in the U.S. Court of Appeals, District of Columbia Circuit, Washington, D.C. Friends of the Court briefs will be filed on behalf of WIFE by the NOW Legal Defense and Education Fund in New York and the Women's Legal Defense Fund in Washington, D.C.

February 7, 1989
U.S. Court of Appeals, District of Columbia Circuit, Washington, D.C. heard oral arguments.

June 2, 1989
U.S. Court of Appeals for the District of Columbia Circuit, Washington, D.C. rules in favor of USDA. WIFE response to be announced.

WOMEN INVOLVED IN FARM ECONOMICS

1989 WIFE POSITION PAPER

The 1989 WIFE Position Paper is prepared as a summary of the Resolutions found in the National WIFE Resolution's Book and is to be used as a working paper for WIFE Officers, our Legislators, Supporting Members, the Media and each individual member in their WIFE endeavors.

GENERAL

Red is WIFE's official color. WIFE members wear the color RED when possible while participating in public WIFE activities to emphasize the fact that farmers and ranchers often have to operate in the "Red".

WIFE devotes their efforts to bring together appropriate agricultural agencies and organizations within their respective states to study the status of agriculture in order to identify problems limiting future growth, economic stability, and development of agriculture. WIFE strives to develop strategies and alternatives to insure farmer profitability.

MEDICAL

WIFE is highly concerned about the high malpractice premiums the medical field must carry. These premiums are rapidly causing reduced service, especially obstetrical care, to our rural areas. WIFE urges other organizations, including health care organizations, to promote legislation to insure obstetrical care be provided in rural America and legislators and insurance companies to revise claim limits and costs of malpractice insurance.

CROPS

DRY EDIBLE BEANS

Dry edible beans are a major agricultural crop in many states and should not be considered an "alternative crop".

Dry edible beans are not included in the present farm program; therefore referred to as a "non-program crop".

WIFE opposes any program that places a program commodity in competition against a non-program commodity and believes that an agricultural impact statement should be made before a new program is instituted. (Resolution 112A)

WIFE encourages the awareness and monitoring of legislation that could adversely affect dry edible beans and other non-program crops.

HAY

Whereas hay is not a government subsidized crop, WIFE urges the government not to enter the hay grading business.

SOYBEANS

The most immediate need of soybean producers is to gain some type of income protection for soybeans. WIFE feels this can be accomplished by establishing a Marketing Loan Program that would eliminate stock build-up and help keep market prices competitive for U. S. soybean farmers. United States producers need to be able to continue producing rather than giving up markets to other countries.

WIFE supports the development of a soybean logo to identify products containing soyoil so the consumer may readily identify soy products.

WIFE supports the long term goal of soybean producers to obtain labeling on packages so the consumer will clearly understand identifications of the various oils used in products.

WIFE feels that these are workable, attainable goals and can be achieved by personal contacts, letter writing and publicity.

COTTON

All WIFE members are urged to utilize and promote the use of cotton, wool, and natural blend fibers. WIFE favors expanding the current law to include the point of origin of the raw cotton spun into all imported apparel and textiles. WIFE supports the cotton impact clause to be triggered on the carryover inventory instead of price. WIFE favors a long range recovery system for our commodities at the market place that allows a profit to the producer.

SUGAR

Congress directed that the sugar program be administered without cost to the U S. Treasury. This is accomplished by limiting imports (through a system of fees, duties, and quotas) to the quantity required to balance domestic supply and demand. The program sets the domestic support price at 18 cents a pound for raw sugar. WIFE supports the program as it is now written.

PEANUTS

WIFE endorses the peanut program as it stands and recommends it be maintained as a program that works for producers and minimizes government costs.

WIFE supports a quota pound system that balances production with domestic consumption at an equitable profit level for all segments of the industry.

The support price for quota peanuts is based on cost of productions; therefore, WIFE urges USDA to use the same formula for determining cost of production during the length of the program and statistics from a dependable source of research.

Peanuts not contracted with shellers must go in the loan at a low support price. Additional peanuts are for export and their price is based on worl market price which is below the U. S. cost of production. Quota peanuts and domestic markets are far more valuable to producers. We urge that promotion and research directed at domestic markets be given priority.

Communication and a good working relationship among the various segments of the peanut industry is vital to all and we want to continue to improve that relationship.

GRAINS

1. Many new terms are being used in developing the 1990 Farm Bill which may have a wide variety of meanings; therefore, WIFE supports a concept rather than any specific "buzz" words. WIFE supports the concept of the historical relationship between farm income support programs and agricultural production.

2. WIFE requests Conservation Reserve Program payments be in cash rather than Commodity Certificates.

3. WIFE opposes any imported grain from being included or participating in any U. S. government marketing and/or agricultural programs.

CORN

1. WIFE supports legislation which establishes the use of biodegradable material in the production of disposable products. (p. 47A)

2. WIFE supports legislation that creates increased funding for research in finding new corn based products and to develop more efficient corn refining techniques. (p. 47B)

3. WIFE should be familiar and aware of any State or National legislation relating to ethanol. Any promotion of ethanol will increase the demand for corn. Also, WIFE should be concerned about legislation regarding tax incentives for ethanol production. Contact your government representatives regarding any such legislation.

4. WIFE challenges the USDA to strengthen the inspection of all commercially stored grains. (p. 47)

WHEAT

WIFE endorses the spirit of the current Farm Bill in its objective of maintaining an economical and abundant food supply for the American people while providing an adequate income for the producer.

WIFE supports the following priorities for 1989:

1) **CCC redeemed wheat should be processed into ethanol.**
2) **Maintain the Export Enhancement Program (EEP) and vigorously pursue other export programs authorized under the Food Security Act of 1985.**
3) **Freeze the target price at 1989 levels.**
4) **Commodity specific certificates should not exceed five percent of the certificates issued; remainder of certificates should be generic. WIFE prefers 100% generic.**
5) Work for a more accurate system of grading.
6) Develop a better system of measuring protein levels.
7) Support a continued program to insure producer stability while developing favorable marketing conditions.
8) Support a deficiency payment based on a 6-month average price making possible final rather than subject to limitation payments in December.
9) Oppose a triggered ARP (Acreage Reduction Program) for wheat.
10) Issue at least 30% of advance deficiency payments at time of the sign-up for the 1989 wheat program.
11) Guaranteed interest at the current market rate, to be paid to producers whose contracted payments are not met by U. S. government agencies.

RICE

WIFE supports the rice program as long as there are surplus supplies and encourages to continuation of PL480. WIFE also supports striving to obtain competitive world markets.

TOBACCO

Whereas the tobacco program is self-supporting, WIFE recommends that the current program be continued and that government grading be uniform throughout the tobacco marketing area.

WIFE opposes increases in the various federal excise taxes to reduce the federal deficit.

EDUCATION

WIFE supports Vocational Agriculture Education and its continued funding. (Resolution 52)

WIFE supports efforts of landgrant colleges and universities to focus on marketing to help solve economic problems of farm and rural America. (Resolution 53)

WIFE supports the change in the regulations for eligibility of student loans taking into account only the net income and liquid assets of the parents. Gross income and fixed assets are falsely interpreted in regard to the students need for financial help. (Resolution 54)

WIFE supports English as the official language of the United States. (Resolution 56)

WIFE opposes the use of public monies for the teaching of "animal rights" in government funded materials on television programs. (Resolution 57)

ENERGY

WIFE renews its dedication to continue the ethanol awareness campaign stimulated by the 1987 convoy and conference.

WIFE will help inform the American public that the use of ethanol could be one major solution to ease the foreign trade deficit, world hunger, U. S. unemployment, air pollution, and agriculture surpluses so all of America will understand how ethanol affects them. (Resolution 69A)

WIFE's Long Term Goals include:

1) Developing agricultural products, including oil seed crops as fuels. (Resolution 69)
2) Encourage the development of cars than can be powered on straight ethanol. (Resolution 69B)
3) WIFE supports the extension of the legislation that supports the excise tax exemption and will monitor the consideration of such legislation. (Resolution 69D)
4) WIFE opposes legislation that would allow the importation of ethanol duty-free. (Resolution 69C)
5) WIFE works for the utilization of distiller's grains to meet nutritional needs in the diets of all people.

WIFE supports agriculture as having the highest priority in the use of gas, fuel oils, and electricity in the event of any shortages.

FAMILY FARM & TAX POLICIES

FARM CREDIT

WIFE strongly urges the establishment of an interest rate policy through which all agricultural lending agencies will make available to all borrowers teh same minimum interest rates that are in direct relationship to the rates set by the Federal Reserve Banking System and that these rates must be made available until commodity prices reach a profitable level and stabilization occurs. (Resolution 77B)

WIFE supports a policy that allows the landowner who has lost his land through foreclosure the right of first refusal to rent or purchase the property back.

WIFE encourages all lenders involved in financing and refinancing a farm or ranch to aggressively pursue debt restructuring.

WIFE supports financial assistance to the FCS which includes Legislation for American Agriculture which would result in historical parity prices for all commodities.

TAXES

WIFE supports legislation that would allow self-employed people to deduct one-half of their health insurance premiums as a business expense.

WIFE requests the reinstatement of the Capital Gains deduction, Investment Tax Credit and Income Averaging for Farmers and Ranchers.

WIFE supports tax reform that would allow sales of property between relatives at an interest rate to be determined by the parties involved.

WIFE supports tax reform that would allow sales of property between relatives at an interest rate to be determined by the parties involved.

WIFE supports a change in the tax law to make an installment sale of personal property taxed in the year the installment payments are received.

WIFE requests that people who must pay extra tribal taxes on reservations receive a credit for an amount based on their federal, state and/or county returns and/or tax assessments.

WIFE opposes increases in the various federal excise taxes to reduce the federal deficit.

GOVERNMENT AGENCIES & REGULATIONS

NATURAL RESOURCES

Air, water and soil are a vital concern to WIFE. We feel all consumers benefit daily by an abundant food supply. WIFE will strive to encourage the use of proven data as opposed to human emotions in regulations that govern our industry.

WIFE will endorse research into biological control of weeds and insects. WIFE urges all railroad and highway departments to make weed control a top priority.

WIFE maintains information being circulated about pesticides and chemicals be factual rather than biased.

WIFE supports education procedures that will decrease any misuse of chemicals and supports the same regulations be imposed on anyone buying chemicals regardless of the amount used.

WIFE recognizes the goals of a clean water act and support reasonable means to prevent degradation of surface and ground water.

WIFE opposes the aquifirs being unnecessarily depleted by industry that does not require fresh water.

WIFE opposes unfair regulations that hold agriculture liable for damages which occur to air, water, soil or animals if all labels where properly observed.

WIFE requests that when any rules and regulations are imposed upon the individual states to implement EPA programs, the funds be provided by the Federal Government.

WIFE opposes hazardous or nuclear waste repository sites in agricultural and/or water resource areas.

WIFE favors the delay of the implementation of the Endangered Special Act until facts are correct and maps accurate. We hope to work with farm, pesticide, commodity and public interest groups to deal with this issue.

HAZARDOUS & TOXIC WASTE

Public awareness is greatly needed to understand the issue. Hazardous and Toxic Wastes are dealt with at city, state and national levels. Any clean-up costs are to be covered by Superfund which is created and funded by Congress. Landfills, discarded tires, PCB spills, industrial liquid wastes and toxic chemicals are examples of Hazardous and Toxic Wastes. It is a separate issue from the High Level Nuclear Waste. Each state is required to take care of their own low-level nuclear waste. (Some states have a compact formed with other states. For example: Oklahoma, Arkansas, Kansas and Louisiana contract with Nebraska to be the dump site state.) WIFE believes this site needs to be monitored very carefully by a citizens group to make sure the DOE is following the guidelines and also that transportation needs to be monitored in every state again to make sure the law is being followed. The chairperson needs to educate and build a public awareness of what is taking place.

NUCLEAR WASTE - HIGH LEVEL RADIOACTIVE WASTE

WIFE is dedicated to keeping all High Level Nuclear Waste sites out of rural areas where it threatens agriculture and water resource areas and make all nuclear plants and companies recycle and re-use all their own waste.

STATISTICS

WIFE requests the USDA report accurately crops held by CCC and that all crops on hand be referred to as INVENTORIES rather than surpluses.

LEGISLATIVE

A wife is a separate person and should have the same rights as any other person to qualify for a separate payment limitation. WIFE will continue its pursuit of equity, including legislation, related to "person status" for eligible farm women under farm program payments.

WIFE requests that a provision be implemented to compensate producers (such as paying interest) when CCC payments are late.

An Undersecretary for Agricultural Affairs should be appointed in the State Department to be an advocate for agriculture and a watchdog for fair trade practices.

FARM PROGRAMS

WIFE supports participation in the Conservation Reserve Program and continued compliance by farmers and landlords for the life of their contracts.

WIFE supports the maximum set-aside allowed by law according to the levels of carryover stock.

WIFE supports cross compliance provisions for participating commodities and opposes any program which would place a program commodity in competition against a non-program commodity.

WIFE opposes giving lenders the ability to place inventoried land into the Conservation Reserve Progra, and in the eventlenders are allowed to do so, WIFE opposes any removal of payment limitation or relazing of guidelines.

Grazing fee formulas on public lands should be set, taking into account the cost of production and the market price.

All farm programs should include disaster payment provisions.

CCC warehouse supplies and fresh farm products should be substituted for food stamps and food distribution programs when possible.

Short term FmHA and SBA emergency and disaster loans should be converted to long term loans.

SET-ASIDE ACRES

A consistent and constant NCA is necessary to implement an efficient, fair and realistic set-aside in a bushel allotment program. Once established, this NCA should not be decreased.

Each farmer should be able to divide his NCA into base acreage that best suits his land and farming practices.

Permanent grass and trees may qualify as set-aside and should not result in loss of NCA. Grass acres shall not be grazed, hayed or harvested.

In order to diversify, a farmer should be able to raise non-program crops without losing NCA.

LONG TERM POLICY

WIFE SUPPORTS THE CREATION OF A LONG TERM U. S. AGRICULTURAL POLICY WHICH IS BASED ON CAREFUL MANAGEMENT OF SUPPLIES, INCLUDING ADEQUATE RESERVES TO MEET DOMESTIC AND EXPORT NEEDS, AS WELL AS SUPPLY MANAGEMENT WHICH WILL PREVENT THE BUILD-UP OF SURPLUSES, DEPRESSING COMMODITY PRICES IN TIMES OF ABUNDANCE.

WIFE supports teh REA programs and urges Congress to continue its support of this important program.

WIFE supports legislation which would establish a revolving fund in the USDA with which to implement the CCC loan programs; thereby, taking the funding of the CCC loan programs out of the supplemental budget process.

The USDA should return to its original purpose of representing the American producers and not the urban consumers.

STANDING POLICY

Parity is the ration of what producers sell in relationship to the goods and services they must buy.

WIFE supports 100% of parity for all agricultural commodities, to be received from the market place, not from government payments.

WIFE insists on the same strict standards on imported beef and that country of origin be restricted to use pesticides and animal drugs allowed in the U. S. and be labeled as to point of origin and type of meat throughout entire food distribution process. (Resolution 142)

WIFE supports rotation of federal meat inspectors in order to maintain honest, impartial inspection of meat processing facilities. (Resolution 145A)

WIFE supports the revision of restrictive standards of the Delaney Clause and related food safety laws to be acceptable to both producer and protect consumers. (Resolution 145)

WIFE supports legislation to allow a reduction in the amount of red meat imported into the U. S. from foreign sources. (Resolution 148)

Any dairy livestock herd dispersal should include orderly marketing thru a monthly quota system. (Resolution 148).

DAIRY

WIFE recommends legislation requiring government agencies to establish that a pollution problem exists before imposing construction of waste control systems on livestock and poultry producers and that zero-discharge provisions be repealed and that a more reasonable standard be adopted. (p. 154)

WIFE supports legislation whereby the consumer will be protected against deceptive packaging, displaying and labeling of imitation and filled milk and dairy products, and IMITATION should be printed in the same size as the product imitated. Also, that all imported dairy products must meet the same sanitary and health standards as those produced in the U. S (p. 155 and 161A)

WIFE strongly endorses continuation of the National School Lunch Program and Special Milk Program, using only whole milk, and promote the use of dairy products in institutions and armed services. The USDA operates an extensive program of distribution of stored surplus dairy products, principally cheese and dry milk, to persons qualifying due to income levels or age; and if fluid milk and other fresh dairy products were also made available under this program, such persons would consume more dairy products, enhancing their nutritional levels and also removing additional dairy products being purchased by the federal governments CCC and the retail food products and consumer products industry has demonstrated that the use of coupons is an efficient and effective means of distribution of products to consumers at reduced or no cost. WIFE urges the USDA to broaden the surplus dairy product distribution program by issuing coupons redeemable for fluid milk and fresh dairy products to eligible persons. (p. 156 and 161)

The amount of dairy imports being imported from European countries which heavily subsidize their own dairy industries, is in direct competition with American farmers. Since Casein has been declared to also be a dairy product, WIFE proposes legislation to reduce these imports and mandates that these products be subject to import quotas. (p. 157)

WIFE urges Congress and the USDA to use specific language when writing legislation and regulations in order to avoid misinterpretations.

WIFE supports a balanced budget amendment and opposes any salary increases for Congress until the budged is balanced.

EMBARGOES

WIFE opposes any embargo of agricultural products for politicial purposes except in the case of a national emergency. In such a case, we request that all products and technology be embargoed and steps taken to insure that American products do not reach the offending nation through a third party.

Compensation shall be provided through the State or Defense Department budgets to all U. S. agricultural producers in cases when commodities are used as weapons in setting foreign policy; furthermore, we are opposed to any artificial embargo.

LIVESTOCK

The U. S. Food and Drug Administration should prove that antibiotics and drugs used to promote animal health through feeds are harmful or dangerous to humans who consume meat of treated animals before banning such antibiotics. (Resolution 130)

WIFE supports the use of 1080 to prevent the spreading of parasites from predators to other animals until something better is established. (Resolution 132)

WIFE supports humane treatment of all animals, but opposes legislation or guidelines at any government level that grants "rights" of animals. WIFE pledges to inform the public of farmers treating animals in a humane manner and that harm can be done by changing the basic methods of production currently used in the food and fiber industry. (Resolution 132) WIFE opposes radical Animal Rights issues (Resolution 136A) and urges all educational and nutritional materials being introduced by the Animal Health, Vegetarian or Humane Society groups be carefully screened by qualified educational personnel. (Resolution 136) WIFE opposes public monies being used for teaching "animal rights" in government funded materials or on government supported television programs. (Resolution 57)

WIFE supports legislation that declares irradiation of food a process, not an additive, and will support efforts authorizing additional research and development of the process and promotion of commercial and consumer acceptance. (Resolution 121)

BEEF

WIFE opposes additional federal or state restrictions upon ranchers restricting vaccinations or limiting vaccines currently being used by cattlemen. (Resolution 133)

WIFE opposes a Patent Policy.

WIFE supports the use of growth implants in beef cattle.

WIFE recommends the USDA abandon consideration of the word "upgraded" and that labeling and grading of beef be required for purpose of uniformity. (Resolution 140)

The research on the Bovine Growth Hormone has been done on only a relatively short term basis and on a limited number of animals. WIFE recommends prior to an FDA decision, more long term research be done on a larger number of cattle and studies be made to show what affect BGH's use and misuse will have on those consuming dairy products from treated animals. (p. 159)

PORK

WIFE supports a National Swine Identification Plan.

WIFE urges teh pork board to continue its efforts in promotion of pork. (Resolution 153)

No SBA loan program should give preferential treatment of large scale absentee owners so as to place family livestock operators at an unfair disadvantage. (Resolution 152)

SHEEP

WIFE supports action against lethal control of predators on federal land. (Resolution 151)

WIFE opposes reduction of tariffs on imported wool. (Resolution 150)

WILDGAME

WIFE supports legislation that requires uniform inspection and labeling laws for all domesticated wild animals and birds for sale and foods processed from them.

WIFE supports a requirement that imported venison be required to meet U. S. imported red meat standards and be in compliance with wholesome meat and meat import act, and that venison imports cease until amendments to those acts are considered by Congress. (Resolution 147)

MARKETING & TRADE

WIFE requests Congress and the Administration to address the balance of trade deficit and the loss of jobs created by imports for all U. S. industries.

WIFE requests Congress and the Administration take positive steps to promote the sale of U. S. agricultural products including value added products in world trade.

WIFE supports legislation that restricts or limits U. S. contribution to financial institutions that make loans to foreign countries for production of agricultural commodities that are in surplus in the U. S.

WIFE opposes further extension of agricultural aid to those third-world countries when that aid is used to develop their export markets in direct competition with American farmers.

WIFE opposes dumping of imports in direct competition with our domestic producers simply to drive prices down.

TRANSPORTATION

WIFE maintains that:

WIFE maintains that: (CONTINUED)

*The majority of agricultural producers pay the freight charges on all that they produce and all that they use, without being able to pass those costs on.

*Deregulation benefits only those areas where there is sufficient inter- and intra-modal competition.

*Passenger and freight transportation should be reasonably accessible to all citizens at a reasonable cost.

WIFE supports:

*The continuance of an Office of Transportation with the USDA.

*All legislation that will require the ICC to enforce the intent of Congress when it enacted the "Staggers Act" of 1980.

*The standardization of the highway laws for commercial trucking and applaud the institution of just one commercial driver's licence.

*Continued updating of our waterways to ensure intermodal competition.

*The installation of reflective material on both sides of the crossarms on all public, unprotected railroad crossings.

*Continued research into utilizing pipelines for the transportation of agricultural commodities in congested areas.

*The continued funding of the Local Rail Service Assistance program.

*Equitable distribution of rail cars in times of shortages.

WIFE opposes:

*The sunsetting of the ICC, urging that at least a simple majority of the commissioners be experienced in transportation issues from a shippers viewpoint.

*To any further increases in users fees on waterways.

*Any attempt of railroads using the shortage of rail cars to levy higher freight charges or favor any particular shippers.

WIFE is concerned:

*About any additional Cargo Preference Laws and urge monitoring to insure that our customers receive the best possible quality of grain.

TESTIMONY OF THE AMERICAN SOYBEAN ASSOCIATION
PRESENTED BY PRESIDENT JAMES LEE ADAMS, JR. BEFORE THE
HOUSE AGRICULTURE COMMITTEE
UNITED STATES HOUSE OF REPRESENTATIVES
JULY 12, 1989

re: THE 1990 FARM BILL

Thank you Mr. Chairman and good morning. I am James Lee Adams, a soybean farmer from Camilla, Georgia. In addition to producing 500 acres of soybeans, I raise pecans, peanuts, wheat, corn, sunflowers, grain sorghum, rye, and oats. I'm here today as President of the American Soybean Association (ASA). ASA is a national non-profit organization representing U.S. soybean farmers with members in 29 states. ASA seeks to increase the opportunity for U.S. farmer profitability through its market development, research, government relations and trade policy programs.

It is a pleasure to be here today before the House Agriculture Committee to discuss what soybean farmers believe should be part of the 1990 Farm Bill. We appreciate the opportunity to be a part of the Committee's Farm Bill planning process.

THE 1990'S TASK FORCE

ASA started a lengthy process preparing for the 1990 Farm Bill debate in December, 1987. ASA's farm bill planning group, the "Policies for the 1990's Task Force," (the 1990's Task Force) is a group of soybean farmers representing various soybean producing regions. It was charged with the responsibility of developing soybean policy options for soybean farmers leaders who, in turn, will be coming to this Committee with specific recommendations to consider for the 1990 Farm Bill. In fact, later this month over 270 delegates will gather in Des Moines, Iowa to debate and approve ASA's policy objectives for the 1990 Farm Bill.

During its work, the 1990's Task Force first analyzed the challenges facing U.S. soybean farmers. The members of the Task Force talked to agricultural economists, policymakers, USDA officials, other farm organizations, users of soybeans and soybean products, and many, many farmers. Next, thirty listening sessions were held in soybean producing states to hear what soybean farmers themselves think of soybean farm policy. The members of the Task Force made sure they heard from ASA members and non-members alike. By design, over 50 percent of the farmers participating in the listening sessions were not ASA members. Additionally, a video, which many of you have seen, was widely circulated and accompanied by a questionnaire asking thousands of soybean farmers their opinion on soybean policy issues.

The members of the 1990's Task Force reached important conclusions during their work. The majority of soybean farmers support planting flexibility, which to them means greater freedom to make production decisions on their farms. Also, soybean farmers do not believe the soybean farm program should support the soybean price received by foreign producers. Third, there is significant desire to have an income support for soybeans which is in balance with the support levels of other commodities. ASA's 1990's Task Force also found that soybean farmers do not support government stockbuilding of soybeans, either through the current non-recourse loan program or a government-financed soybean reserve program.

A top concern of soybean farmers is environmental/conservation policy and its impact on future soybean production. In fact, it is the opinion of many farmers in virtually all soybean producing regions that environmental policy will affect their ability to farm profitably and competitively as much as, and perhaps even more than, government farm programs. They tell us they need balanced environmental policies which allow farmers to produce soybeans competitively and profitably while protecting and enhancing the environment. If farmers have more freedom to plant what's best for their farming operation, they can improve crop rotations. Many believe that the rigid farm commodity programs that exist have discouraged farmers across the country from practicing some sound environmental practices. More balanced crop rotations mean better pest and disease control, conservative use of fertilizer and chemicals, and lower farm production costs.

Traditionally, ASA's philosophy has been to focus on the soybean farm program while other farm organizations and commodity groups addressed their respective commodity programs. Of course, ASA will continue to address the soybean farm program, but it has become increasingly clear that the economic signals sent by each farm program affects the entire crop production mix since each farmer often produces several crops.

SOYBEAN FARM PROGRAM

Farm Commodity Programs

As Congress begins work on the 1990 Farm Bill, ASA recommends that careful consideration be given to the planting signals sent to farmers by federal commodity income supports and crop base restrictions. Simply put, farmers will produce those crops with the greater returns, whether from the marketplace, the government, or both. They will also seek to preserve their eligibility to participate in farm programs, which means preserving crop base acreage. To do otherwise just doesn't make economic sense.

The majority of farmers participate in, and the majority of row crop production acreage is enrolled in, federal farm programs which employ crop acreage bases. Today, many farmers find themselves in "base lock." They are unable to plant additional acreage to soybeans in order to capture market opportunities, balance rotations, or address environmental concerns unless they are willing to see their base acreage reduced in the coming year. Furthermore, the value of base acreage is factored into land prices, compounding the difficulty of changing this system.

Soybean Program Modifications

ASA believes that the current soybean farm program needs to be modified in the 1990 Farm Bill. Soybean farmers face serious challenges today that were not evident in the same magnitude when the Food Security Act of 1985 was written. It's a well-documented fact that soybean and oilseed production is expanding rapidly in South America and elsewhere abroad, while the U.S. faces a constriction in soybean production. It's also a fact, documented by USDA and many others, that the U.S. is losing world market share for soybeans, soybean meal and soybean oil while demand is growing at 4 to 5 percent per year. It's alarming that soybean farmers are losing market share in a growing market!

ASA believes that current U.S. farm programs are discouraging soybean production in the U.S. and encouraging soybean production overseas. Farm program economics tell U.S. farmers to maximize production of program crops, such as corn, cotton, rice or wheat, which each have a target price yielding greater returns than the market price for soybeans. Yet foreign soybean producers don't receive a target price, while they do experience lower market prices occurring as a result of reduced price support loans for U.S. program crops. Foreign competitors keep expanding their soybean production because they see that soybean cash prices are more profitable than cash prices of other commodities. The Food Security Act of 1985, as amended, also accelerated reductions in program crop loan rates at a more rapid rate than reductions occurred for target prices, which had the effect of encouraging an increasing number of farmers to participate in farm programs.

The results are that U.S. farmers get the signal to maximize production of program crops while our competitors see the opposite signal from the marketplace and expand soybean production. U.S. production of soybeans and other oilseeds is down 31 percent and acreage is down 20 percent since 1979. Foreign production is up 52 percent and acreage is up 22 percent. As world demand grows 4 to 5 percent each year for vegetable protein and oil, U.S. farmers are watching foreign competitors expand and seize profit opportunities away from them. Unless this is turned around, short-term U.S. farmer profit opportunities will disappear as less demand for U.S. soybeans means reduced profits and fewer U.S. soybean farmers. We recommend that the 1990 Farm Bill address this dilemma.

Summary

Often policymakers encounter farm program problems characterized by surplus stocks, low prices and rising federal costs. The problem faced by U.S. soybean farmers today isn't high stocks, low prices, and high federal cost. Instead our challenge is to achieve a U.S. soybean farm policy which lets us produce a quality crop for the market, generate a farmer profit and benefit from a growing world market.

ASA would like to work with the Committee to develop soybean farm program options which provide greater farmer freedom to make planting decisions, provide no support for soybean prices received by foreign producers, and provide income support for U.S. soybean farmers. It appears desirable and possible to explore ways in which regional concerns might be addressed in an overall soybean farm program. Base flexibility should be accompanied by a hard look at the relative returns from various crops to determine how "neutral" the planting signals are from the government to farmers. We believe that the prospect for soybean returns must be brought somehow more consistently in balance with other crops.

CONSERVATION & ENVIRONMENT

Background

Passage of the Food Security Act of 1985 opened the door for a new era in agriculture. Most often we hear how the 1985 Farm Bill helped to reestablish our position in the world market by enhancing export market competitiveness. But equally important was the Conservation Title which included historic legislation. Congress passed a 40 to 45 million acre Conservation Reserve Program (CRP) to remove highly erodible land from production in return for rental payments from USDA. Sodbuster and swampbuster provisions were included to help protect that land at the conclusion of the 10 year contracts and other marginal lands and wetlands. Finally, the 1985 Farm Bill established a time frame in which all farm commodity program participants must establish a conservation compliance program for their farm.

Now it's our responsibility as agricultural leaders to look toward the 1990 Farm Bill and discuss policies designed to enhance our current conservation and environmental laws. Environmental challenges are a priority for soybean farmers. Since their livelihood depends upon maintaining environmental quality, they are working to enhance their stewardship of natural resources and the environment. In the 1990 Farm Bill, soybean farmers seek **balanced environmental policies which allow farmers to produce soybeans competitively and profitably while protecting the environment**.

Groundwater

A number of groundwater research, study, and regulation bills were left pending in the 100th Congress. Major issues included "prevention of contamination" versus "control action after pesticide detection in drinking water," and determination of action levels based on health protection goals or known health effects. Whether underground water not presently used for drinking should be protected as a "potential" future source of drinking water is also under debate.

Soybean farmers see an increased need for technical assistance on their farm. Educational efforts through the Extension Service or the Soil Conservation Service is a must to curb possible groundwater contamination. Additional research in the groundwater and surface water areas is essential to preserve the nation's water resources. USDA should take the lead in organizing and implementing this necessary research and education.

Conservation

Soybean farmers are working to comply with the stiff conservation provisions of the 1985 Farm Bill. For the first time, eligibility for USDA program benefits was linked by law to compliance with soil and water conservation measures. Soybean farmers support voluntary incentives to improve conservation/environmental practices. For example, farmers enrolled millions of soybean acres in the voluntary CRP. This has had the positive effect of retiring less productive, erosion-prone cropland while achieving conservation objectives. Since there is some doubt if 40 to 45 million acres will be enrolled in the CRP, ASA believes the definition of eligible land should be expanded to include "environmentally sensitive" land.

Low Input Sustainable Agriculture (LISA)

LISA has become a new Washington buzz word. LISA stands for "low input sustainable agriculture." It appears that LISA is having the same problem the term "decoupling" had; everyone has a different definition for LISA and the basis for support or opposition depends on the individual's definition.

Some have suggested that LISA should be defined in such a manner as to encourage the eventual elimination of all chemical use in agricultural production practices. This definition would be off-base and **ASA would oppose such efforts**. As both users of chemicals (pesticides, fertilizers, etc.) and consumers of products which nave been produced with the assistance of chemicals, our members have an appreciation for the great contribution these chemicals make to our food and fiber supply. The benefits of chemicals to consumers and to the food supply, the essential reasons for using them at all, are often overlooked. Agricultural practices which involve the use of chemicals can be given a great deal of credit for helping provide a safe, economical, and abundant food supply to the American public.

Many U.S. soybean farmers are currently using "low input" practices. Economics tell farmers to use the least amount of inputs possible for an adequate return. This has not always been the case. Ten years ago the perception of some producers was if one pound per acre worked, two pounds might be better. For example, in the past Roundup had been used at a recommended application rates of 2 to 3 quarts per acre. Today farmers are frequently applying Roundup at rates as low as 1 quart per acre.

In addition, farmers are using better and more specific application methods which also reduce the total amount of chemicals used. The potential of improved pesticide application technology for reducing environmental impact is great, and we support expanding research to develop and refine such technology. So my point is that "low input" practices need not be regulated by government action. Economics and farmer concern for our natural resources has already moved farmers in the direction of "low input" practices.

Summary

In summary Mr. Chairman, we believe that most farmers are currently practicing sound management techniques and could benefit from expanded educational programs which encourage adaptation of new, profitable environmental practices. Additional funding toward biotechnology research would be a positive approach soybean farmers would support. This increased research would accomplish the goal of even further reducing the use of agricultural chemicals without jeopardizing high quality, profitable production. Farmers simply want to produce profitably for the domestic and international markets while maintaining environmental quality. To suggest, as some have, that farmers are not conscientious in their farming methods and have little concern for the environment is simply not true. Farmers are true environmentalists and stewards of the soil. Farmers live on the land, feed their family and others from the land, and take great pride in the environmental soundness of their land. Specifically, farmers and their families drink groundwater and have little desire or incentive to practice unsafe farming techniques known to damage the environment.

The actions this Congress takes in the 1990 Farm Bill which affect the agricultural and conservation/environmental practices of farmers will hopefully enhance producers' ability to farm profitably and in an environmentally-sound manner. We only ask that serious consideration be given to these policies which, if made in a vacuum without thorough evaluation of the ramifications on farmers and the food supply, could severely cripple this nation's number one industry, agriculture.

AGRICULTURAL TRADE TITLE

ASA supports a very strong Trade/Export Title in the 1990 Farm Bill. In fact we urge that the Trade/Export Title be the first title in the bill. The more successful the U.S. is in exports the less the income support provisions of the bill will be needed. The soybean industry is very dependent on exports with approximately 50 percent of our crop exported annually. However, we face extremely tough competition in foreign markets from South American soybeans and soybean products, Malaysian palm oil, Canadian rapeseed, and subsidized European Community (EC) oilseeds. We need aggressive export assistance from the U.S. Government if we are to compete on an equitable basis.

Export Credit

Export credit is a very important tool in the effort to expand exports to the scores of developing nations that represent the largest growth markets for soybeans and soybean products. ASA supports increasing the minimum funding authority for the GSM-102 short-term credit guarantee program from $5 billion to at least $7.5 billion. The minimum funding level for the GSM-103 intermediate-term loan guarantee program should be increased to at least $1 billion with at least one-third of that required to be used to facilitate the construction abroad of facilities aimed at increasing the efficiency of importing, storing, transporting, and utilizing imported U.S. commodities in developing nations.

P.L. 480

ASA urges the Committee to substantially reform the P.L. 480 program in order to refocus the program on its intended objective, the creation of long-term commercial markets for U.S. commodities. For far too long the program has been a foreign policy and foreign economic development program rather than the market development program it was aimed to be when it was created by this Committee in 1954. We support foreign aid, but, we should also make sure that our nation's foreign aid benefits us as well as the recipient nations.

Foreign Market Development

ASA urges the Committee to continue to provide for funding authority at not less than $325 million annually for the Targeted Export Assistance (TEA) program while maintaining strong support for USDA's cooperator foreign market development program. The TEA program has been very effective in keeping the pressure on the European Community to eliminate its predatory trade practices while increasing demand for U.S. agricultural commodities. ASA's TEA-financed promotion programs for soyoil in the U.K., Germany, Portugal, Spain, and Greece have been instrumental in increasing soyoil consumption at the expense of EC-origin subsidized vegetable oils. This, of course, raises the EC's subsidy costs and increases pressure on the EC to cut back on its subsidies. Likewise, the funds ASA receives from USDA to over 400 conduct market development activities in over 80 countries will pay big dividends in increased future commercial sales to these countries. It is important that the programs to be generously funded.

Finally, Mr. Chairman ASA believes the farm bill should provide additional funding for the Foreign Agricultural Service to hire additional staff to better carryout the many important functions it is assigned. Many important new programs have been assigned to FAS in recent years and the agency is hard-pressed to carryout its responsibilities with its current staffing. We hope the Congress can see fit to give FAS the funds and authority it needs to fully serve American agriculture.

SOYBEAN RESEARCH

ASA's farmer-members annually review the research needs of soybeans and and "put their money where their mouth is." By investing their own funds in soybean research through farmer-controlled state checkoff programs, U.S. soybean farmers are offsetting some of the cost of soybean research.

Soybean Research Priorities

ASA ranks soybean research priorities as follows:

1) **Production Efficiency Research Appropriations:** Aggressive research program to reduce production costs and boost competitiveness.

2) **Composition Research Appropriations:** Research is needed to increase the soybean oil and protein content in soybeans.

3) **New Uses Research Appropriations:** First, intensify research to better adapt soy protein meal to aquaculture feeding rations. Aquaculture feed has tremendous market potential. Second, soybean oil-based ink needs research to make this promising new product more marketable.

In particular ASA supports:

Major emphasis on research to increase competitiveness of U.S. soybean farmers, expand consumer use of soybean products, reduce production costs, and improve profitability of soybean production. Research is needed to increase yields and profits of all soybean farmers, particularly southern farmers. Expanded production research will improve the U.S. soybean's competitive position.

The U.S. is being "out-researched" by its foreign competition. U.S. researchers are finding it difficult to obtain adequate funding for production research while our South American competitors are directing their funding and personnel into a single-defined target of lowering the cost of producing soybeans. It is essential for the U.S. to adequately support production research if U.S. soybean farmers are to expand production and meet the growing world demand for soybeans. If we don't the future is clear -- U.S. soybean production will lose its competitive edge in the world marketplace.

Coordinated national soybean utilization research programs which create new uses through: Improved soybean oil quality characteristics, improved nutritional value of soybean meal, and expanded soybean protein and full-fat use in feed. Expanded utilization research is important for development of non-food uses of soybeans, such as soybean oil-based printing ink.

Increased research and educational efforts to improve soybean production efficiency. Research areas needing emphasis are varietial development, weed and pest control, and improved cultural practices to ensure profitable soybean production.

Expanded research to assure the development and safer use of agricultural chemicals and pesticides. Groundwater research funding is also important.

Greater biotechnology research for soybeans. Research should be directed at expanding basic understanding of the molecular biology of the soybean, establishing genetic control of soybean traits important to yield and composition, and determining the economic importance of soybean traits.

We in agriculture are now entering the biotechnology age. This new and exciting scientific advance will reduce the need for chemical dependent farm practices that affect the groundwater mentioned previously. Biotechnology is one of the most rapidly developing applied sciences which holds a rich harvest of breakthroughs. Many predict that the future of agriculture lies in biotechnology. Soybeans, which are able to withstand yield robbing pests, or environmental hardships, or are capable of being used for new market opportunities, are now a real possibility. The future is bright and just about unlimited. The limiting factor of course is funding.

The August, 1988 issue of Biotechnology states on its cover, "Soybean Breakthrough: The First Engineered Stable Crop." What once was a dream, then rumors, are now being reported. Things like:

- Soybean regeneration from tissue culture is now routine.

- Transgenic (transferring foreign genes from one source to soybeans) soybeans are being produced.
- Understanding chromosome characteristics that carry the life code for soybeans. This aids soybean breeders in developing new soybean varieties.
- Progress is being made in developing the soybean gene map.

But a whole host of potential uses of genetic engineering exist. Remember that some of these uses may be available to researchers in months, and available to soybean farmers in a few years. The quicker the farmer gets the technology the better. These uses include pesticide resistance, insect control, plant disease control, growth regulators, and soybean composition improvement. Biotechnology will have an enormous impact on future soybean production. We have come a long way in the past few months and the future looks extremely bright.

Summary

Research such as that on soybean oil ink is an example of how NEW federal appropriations, not funding taken from production research, could assist in increasing demand for soybeans and soybean products and help U.S. soybean farmers increase their income from the marketplace not from government coffers. Continued research into production and composition of soybeans represents research which will allow the U.S. soybean farmer to reap a larger profit. All these points once again reinforce the need for a sound and well funded agricultural research and information distribution system.

SUMMARY

Once again, thank you Mr. Chairman for the opportunity to appear before the Committee today. The American Soybean Association looks forward to working with you and the Committee in drafting the 1990 Farm Bill. From the Environmental/Conservation Title to the Commodity Program Title to the Trade Title, we believe the policies passed by the 101st Congress will set the framework for agricultural production in the 21st Century. It is our hope that profitable soybean farming will fit into such a framework.

Statement of Reggie Wyckoff
President
National Association of Wheat Growers
before the
House Committee on Agriculture
on the
1990 Farm Bill
July 12, 1989

Mr. Chairman and Members of the Committee:

Thank you for this opportunity to present the views of the National Association of Wheat Growers regarding the 1985 Food Security Act and the issues wheat producers are concerned about for the next generation of farm policy in 1990. I am Reggie Wyckoff, President of the NAWG. My family and I operate a wheat farm near Genoa, Colorado.

Clearly, the 1985 Food Security Act was not perfect. But as a whole, I believe most producers are genuinely satisfied with the bill. The 1985 Act deserves praise for addressing the very difficult situation that depressed the agriculture economy during the mid 1980's: depressed farm income, a serious farm debt situation, loss of export markets, and burdensome stocks of grains. At about this time in 1986, the U.S. was holding a record level of 1.9 billion bushels of unsold wheat. This stockpile amounted to 97 percent of total domestic and export utilization. In fact, excessive stocks caused many of us to believe that we had entered a new generation of farm surpluses.

As each member of this committee knows, the 1985 bill was the result of many hard compromises. It was constructed as a bridge between earlier programs and more market-oriented policies, and its "front-loaded" costs were anticipated. At the time, we hoped to turn around the wheat situation within the life of the 1985 Act. Significant progress towards reaching this goal has been accomplished, and we hope that new legislation will continue the process of returning agriculture to a sound financial footing.

As the current president of NAWG, I have enjoyed a unique opportunity to speak with, and learn from, producers from all across the nation. There are several broad policy concerns that wheat growers have told me they would like to see addressed in the 1990 bill.

First and foremost in the minds of many producers is the desire to continue current farm policy of providing farmers with an income "safety net." The present system of target prices, deficiency payments, and non-recoarse loans have worked to place a floor below which a farmer is protected from adverse price movements. Furthermore, the continued judicious use of annual set-asides and Farmer Owned Reserves will provide the necessary fine tuning to balance grain supplies for international market needs, food reserve goals and domestic consumption.

The present farm policy was crafted under the shadow of a burdensome oversupply of almost all major commodities. Although most farmers and policy experts agree that a continuation of present policies are in the best interest of the nation's farmers, there is also a realization that grain supplies and prices have changed dramatically. Therefore, some fine-tuning will be necessary to ensure that farm program policies do not cause a slow-down or stagnation of the farm economy. A prime example of this concern are the repeated calls for greater planting flexibility.

While NAWG is fully supportive of greater flexibility, the grower-members are adamant that flexibility must not come at the expense of their family's livelyhood. This is why wheat growers are skeptical of the "triple base" concept as it appears to be more budget driven than flexibility driven. As we understand this proposal, a grower would have three bases: "permitted acreage" which would be the base acreage minus any acreage reduction or diversion program; "payment acreage" which represents a percentage of potential acres planted to a crop; and a "released" portion of the base which may be planted to other crops but would earn no program benefits.

We see the "triple base" plan as nothing more than a back door way of cutting target prices. Furthermore, the proposal ignores the fact that wheat producers often lack the cropping options enjoyed by the corn belt or other regions of the country. Therefore, NAWG would urge the members of this committee to look at the Normal Crop Acreage (NCA) program, with the inclusion of summer fallow acreage, as a viable alternative to triple base and a more equitable way of addressing flexibility concerns.

The Food Security Act of 1985 marked a major policy shift toward a more competitive, export oriented farm policy. The cornerstone of our export policy has been the Export Enhancement Program. The program has been used to accomplish three objectives: first, to compete with unfair trade practices in other countries; second, to increase exports of farm commodities; and third, to enhance our bargaining position in the Uruguay Round of Multilateral Trade Negotiations. In the past four years, EEP has resulted in over $8 billion in sales of farm products, including 60 million tons of wheat and 2.7 million tons of flour. In the eyes of most wheat producers, the success of the program is without question — since the initiation of the program in 1985, the U.S. share of the world wheat and flour market has increased from 29 percent in the 1985/86 marketing year to 42 percent in the 1988/89 marketing year.

The enhancement program represents our nation's most powerful trade policy leverage. The importance of the program is best understood when we recall that many of our competitors — especially in Europe — have been subsidizing exports for years. A continuation of the Export Enhancement Program and the myriad of other export programs has never been more vital to the future of our nation's wheat farmers. As we move forward with the next round of trade negotiations a strong EEP is our best guarantee that other countries will come to the table in a good-faith attempt to negotiate new disciplines and a reduction of trade barriers.

The final broad category that I would like to address today is the environmental arena. The conservation title of the 1985 Act marked a major shift by merging, for the first time, farm program policy and environmental policy. The sodbuster and swampbuster provisions of that title are worthy goals — and are workable when tied to the basic realization that conservation plans must also be economically feasible. The Department's Alternate Conservation System (ACS) is a prime example of balancing our conservation goals with economic reality.

Already farmers are weighing the benefits of participation in the farm program against the cost of the conservation compliance. This is important to note because there are many people within the environmental community that would like to tie program benefits to some form of environmental plan. We believe that many farmers will find that such a "carrot-and-stick" approach to addressing environmental concerns will be too much "stick" and too little "carrot."

Instead of placing more strings upon program participation, we should revamp our existing delivery systems for addressing problems within agriculture. A renewed commitment toward research and education will ensure that those of us within agriculture can address concerns about chemical use and its effect upon groundwater, the environment, and food safety. A concerted, united effort by the agricultural community toward addressing chemical use issues through improved management practices and enhanced education will preclude the need for regulatory solutions to environmental problems.

Mr. Chairman, members of the committee, I thank you for the opportunity to testify. I will be pleased to respond to questions at the appropriate time.

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STATEMENT

by

JACK KINTZLE

GOVERNMENT RELATIONS VICE PRESIDENT

NATIONAL CORN GROWERS ASSOCIATION

before the

COMMITTEE ON AGRICULTURE

U.S. HOUSE OF REPRESENTATIVES

on

July 12, 1989

Mr. Chairman, I am Jack Kintzle, a corn farmer from Coggon, Iowa, serving as Government Relations Vice President for the National Corn Growers Association. Thank you for the opportunity to visit with your committee today about some issues of crucial importance to corn growers that will be debated as you develop a successor to the 1985 Food Security Act. This hearing and subsequent discussions in the House of Representatives will, to a great degree, serve as a "measuring stick" for the successes and shortcomings of the 1985 Act.

Before commenting in detail about the possible provisions of a 1990 Farm Bill, I would like to point out several conditions that have already severely tested current law. The 1985 Food Security has provided flexibility and adaptability in response to many conditions:

- record grain stocks and static grain prices
- restructuring of the federal farm credit system
- recovery of commodity prices and improved farm land values
- a significant increase in corn and grain export volumes
- a record and disastrous drought of 1988
- a steady annual adjustment of income and price support for program commodities that resulted in decreasing federal outlays for farm programs from about $26 billion to about $11 billion in just four years -- or a 57 percent decline

It is for these above reasons -- and several others could be listed as well -- that the National Corn Growers Association urges you to take the best of the practical and flexible provisions and titles of the 1985 Food Security Act as your starting point in drafting omnibus farm legislation that will be required at the expiration of the 1990 crops.

As the current law enters its final months, many agricultural interests are calling for the new farm bill to give producers the ability to follow market signals even more closely. They want to be able to switch more of their acreage to oilseeds and other crops as prices warrant, but at the same time they don't want to lose their acreage bases for corn, wheat and other program crops.

Flexibility does, indeed, seem to be the call of the day within agriculture.

Just as we favor more market-oriented farm programs, the National Corn Growers Association supports giving farmers a certain degree of flexibility in planting oilseeds or other feed grains on their program base acres.

You don't have to look far to find good examples of the concept of flexibility already written into law. One is the provision in the 1985 Farm Act giving the Secretary of Agriculture the discretionary authority to allow the substitution of up to ten percent between acreage bases for different crops.

In addition, the so-called "10-25" option in last year's drought-relief bill was a good start toward a farmer flexibility program. As you know, it allowed farmers to elect to plant soybeans and sunflowers on 10 to 25 percent of their base acres without losing base credit. The drought-aid bill also allowed farmers to freely switch their program-crop acres to oats.

However, that "10-25" option was flawed, in my opinion, when USDA was allowed to limit the number of acres that could be switched, in order to keep soybean prices above $5.49 per bushel. As you'll recall, farmers were finally given authority to switch 80 percent of the land they had signed up for.

A true "farmer flexibility" program should set parameters for acreage substitution like the 10 to 25 percent range allowed this year and let farmers freely choose how much to switch when they plant -- without being second-guessed by the Department of Agriculture or having to make another trip to the ASCS office.

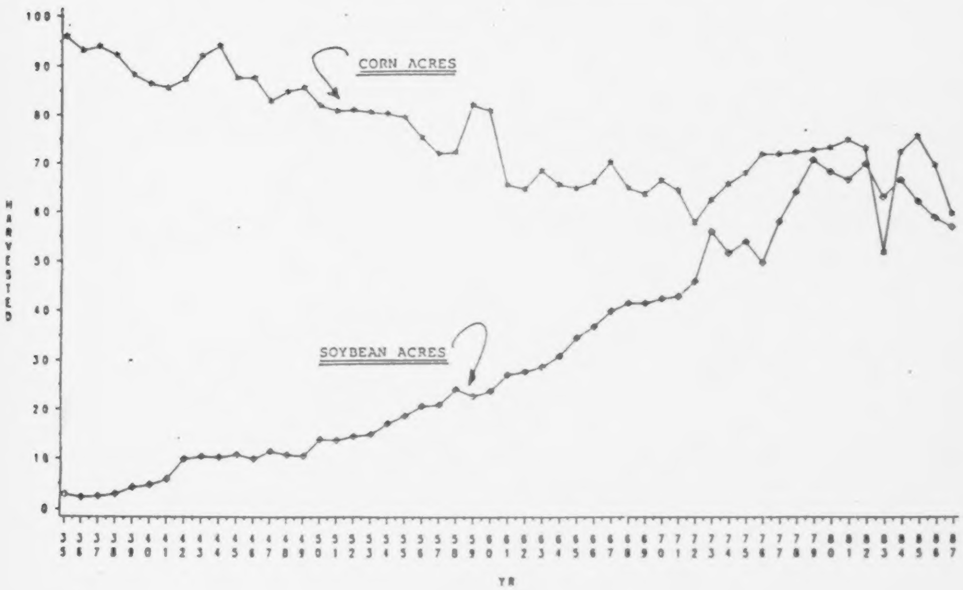
Take note of the fact that I stressed "farmer flexibility." We have real concerns that some of the current flexibility concepts, including the "triple base" proposals, could wind up being used more as a back-door method to cut farm program spending. Although they may be well-intentioned, those plans stand to give the flexibility to the administration to limit acreage eligible for program benefits.

We recognize the need to cut government spending at all levels and feel the feed grains programs have contributed to the savings your agriculture committee has provided. But let's not use the honorable goal of responding to market signals as a cover for unintended cuts in the programs so important to the nation's farmers.

Another point that is constantly made about the issue of flexibility and its many manifestations is that the market is demanding more oilseed acres. Because of the inflexibility of the corn base and farmers' concern for preserving base income and locking in a level of income from the target price, it is reasonable to ask: how many more oilseed acres is the market demanding? Obviously the Secretary of Agriculture in early 1989 was only prepared to allow for 2.8 million acres of additional soybeans. Or was it simply that 2.8 million acres of soybeans desired politically to maintain the support for a $5.49 per bushel price for soybeans in the marketplace?

With respect to the market demand for either more acres for oilseed, more acres for corn and other feed grains or both, it is really a question of what price the market is prepared to pay for the commodity rather than the market is demanding just more volumes of acres (or production of a commodity). It is interesting to note that farm programs are generally designed to support prices through some reasonable program of either set-aside or paid land diversion systems, both of which serve to hold back on planted acres in any given season. Farm programs are not generally given over to the purpose of increasing acres that would lead to additional production and lower prices, resulting in greater federal outlays to sustain a reasonable safety net level for farmer income. Over the past fifty-five (55) years of various farm programs to sustain program crop prices, it is revealing to examine the interrelationship of acres of the leading feed grain, corn, and the acres of the oilseed crop, soybean, that is shown below:

"U.S. CORN AND SOYBEAN MILLIONS ACRES HARVESTED"



SOURCE U.S.D.A

BLACK = CORN
RED = SOYBEANS

As the above chart shows, acres planted to both corn and soybeans have expanded from approximately 95 million total acres in 1935 to approximately 140 million total acres in the late 1980's. In addition, the vast increase in yields per acre, especially in corn, is the market-price determinant and not the quantity of acres. And the trend lines in the above chart show too that in many respects, and particularly from the mid-1970's onward, the annual feed grains price support programs have in fact supported and encouraged the increase in both the acres and production of soybeans. These trend lines should demonstrate that the farmer is more concerned with the per acre profitability each year than with the acre that should be planted to corn, soybeans or other crops. But a corn farmer is a corn farmer first and foremost, rotating cropping patterns from year to year with soybeans and wheat for agronomic practices, market signals and program provisions.

For those who call for a unilateral reduction of the corn target price to bring it more in line with target prices of other program crops, you must inquire of these advocates the assumptions that are being used to justify a unilateral reduction of the corn target price. Is it the "cost of production," a very imprecise measurement for even corn production from region to region, and even more imprecise between corn such as corn and cotton? Is it the variable return on investment? Is it the level of the target price as a percentage of some market price construction? And do all commodities really have a "market price" such as the futures market for corn and other grains? Maybe the "imbalance" of the larger outlay for corn deficiency payment compared to other crops is simply a fact that so many more acres are planted to corn and that the production of corn is so much greater in quantity than some other crops such as rice and sucrose sugar crops.

Several recent studies presented to House Agriculture subcommittees have demonstrated that the target prices for major crops are basically in line with each other. This confirms the wisdom of Congress in setting up a schedule of target prices in the 1985 Farm Act. Debates such as those comparing target price levels do nothing but divide agriculture and pitting commodity group against commodity group at this time benefits no one.

The debate over increasing oilseeds acres on the percentage of corn and feed grain base acres cannot be examined on the basis of imbalance between target price levels. There is no target price for soybeans and other oilseed crops, although all soybean producers are eligible for the annual crop loan without assuming any obligation such as a non-paid set-aside requirement for corn farmers.

Elsewhere in a 1990 farm bill to be put in force for the 1991 crop year, we will have to provide for additional and responsible provisions to accommodate a growing concern for various environmental issues: water safety, soil conservation and air quality. The whole complex of chemical usage in corn and other agricultural production now being considered in the overall sphere of "food safety" cannot be ignored by agriculture in re-writing a farm bill.

While much of the federal legislative efforts under the broad heading of food safety may be developed in committees other than in the United States Congress, you and your other colleagues on the Agriculture Committee must press to have joint responsibility in writing such legislation. Moreover, in the entire area of environment and food safety, it is very obvious that you should consider authorizing a major research section of any new farm bill to determine what degree of regulation over usage and application of chemical inputs for corn production is safe and prudent. Too much special interest group hysteria is moving the popular press to literally "scare the hell out of consumers" about these matters. Alar as an apple preservative is the most recent and glaring example.

Following a major research effort to determine proper tolerances and uses of chemicals with a view of maintaining water quality, clean air, and preventing soil erosion, taking into account both the risks and benefits to society of such chemicals -- research that may be performed by the National Science Foundation, and the National Academy of Sciences in conjunction with our fine research resources in land-grant universities -- we would be in a better position to legislate areas for which the Environmental Protection Agency and the Food and Drug Administration are now just literally making decisions to accommodate public pressure. Having such scientifically reliable and documented data would allow us to write a responsible environmental/conservation title in new omnibus farm legislation. A good starting point may be the environmental conservation acreage reserve legislation that was introduced by Senator Dole in early 1988 to handle such matters.

While the decrease in support prices in the current act has returned us to a competitive position in the world grain trade, a simple continuation of the lowering of the supports is not necessary in new legislation. In 1990, the fifth and final year of the 1985 Act, the corn target price will be just $2.70 per bushel and the loan rate just $1.57 per bushel. With respect to current market conditions for corn and grain, the target price should be frozen and simply extended through the life of any new farm bill. In the event that inflation raises its ugly head again, we may need to consider some type of inflation clause that would adjust target prices to allow corn farmers to keep up with the likelihood of increasing costs for the production of corn.

Another major goal of the 1985 Food Security Act is the commitment to a vigorous export expansion program for corn and agricultural production. In this regard, I would urge you to seriously consider making the marketing loan for corn mandatory in any instance that it can be demonstrated that our corn exports face unfair price competition for overseas markets. In addition, the mandatory use of a marketing loan for corn must be on the basis of a recourse loan without a price floor in order to preclude some of the export problems now facing some other agricultural crops. In light of the European Community's intransigence in negotiations toward reducing world trade barriers, we urge the administration to implement the 1987 Trade Act provision for "triggered" marketing loans, effective in 1990. To emphasize our concern about the negotiations, we feel your committee should also consider an open-ended, recourse loan for corn in the 1990 Farm Bill as well.

Whether in a 1990 farm bill or in other legislation, we urge you to continue to support and expand new and current industrial uses for corn. I have in mind here that the 6 cent per gallon exemption for ethanol from the federal motor fuel excise tax should definitely be extended to the year 2010. With this small federal incentive, our domestic ethanol fuels industry, which produces a cleaner burning fuel that is produced almost solely from corn, has grown from about 80 million bushels of usage in 1979 to just under 350 million bushels this year.

Use of degradable plastic bags and containers manufactured with corn starch must continue to be pressed at the national level from officials of your prominence. These moves would increase corn usage and further decrease program costs. With almost one (1) billion bushels of corn being used in various industrial forms, from ethanol to corn sweeteners, all of which use the starch component of corn, we must keep open the export market in the European Economic Community for corn gluten feed. In addition, we must move to find additional export markets for corn oil as well. Both corn oil and corn gluten feed are by-products of the corn processing industry; both products are excellent protein based products for human and animal consumption, respectively. There are many other issues I could raise today in these hearings, but I will resist that temptation in the interest of time.

Nevertheless, I have attached several additional briefing papers prepared by the National Corn Growers Association that can be incorporated as part of my statement for your record and later reading. In closing, I repeat that I am pleased to appear before you today, and again congratulate you on holding these hearings. It really demonstrates to farmers such as me that you and your colleagues have a genuine interest in and concern for the issues facing corn farmers.

National Corn
Growers Association

Issue: FEDERAL BUDGET/AGRICULTURE IN FY 1990 BUDGET

Background: Following the October 19, 1987, stock market plunge, Congress developed a two-year, $76 billion budget reconciliation package to bring the federal deficit in line with the Gramm-Rudman-Hollings (GRH) deficit reduction requirements. These efforts were undertaken to avoid an automatic 8.5 percent sequestration (an estimated $.16/bushel in 1988) of federal spending. For agriculture, this deficit reduction package required farm spending to be reduced by $900 million in 1988 and an additional $1.5 billion in 1989. For corn growers, these actions required an additional reduction of 1.4 percent in the target price for 1988 and 1989 crops -- in addition to the scheduled reductions in the 1985 Farm Bill.

Discussion: President Bush's first budget message to Congress made little mention of additional cuts in farm spending. However, the written version of President Bush's budget plan for agriculture seems to "mirror" the Reagan budget. That means a proposed $1.1 billion cut in farm program spending for fiscal 1990. The Reagan budget also called for farm programs to be cut an additional $2 - 2.5 billion each year from 1991 - 1994. Bush's exact agricultural spending priorities are still somewhat sketchy at this point. He has repeatedly noted the need for opening export markets and placing additional emphasis on new research. However, he's been reluctant to pinpoint where cuts would be made to finance these or other new initiatives. Most likely ways to reduce farm program spending: lower target prices or reduce the number of base acres eligible for farm programs. The feed grains program will continue to be a prime target for budget cutters, even though spending has dramatically declined. The chart below shows USDA estimates for net CCC program outlays by commodity. This information was included in President Reagan's USDA budget proposal.

Commodity	Fiscal Years 1986	 1987	 1988	 1989	 1990
	----------million	dollars	----------		
Feed Grains	$12,211	$13,967	$ 9,053	$ 3,042	$ 5,562
Wheat	3,440	2,836	678	279	1,052
Rice	947	906	128	999	959
Cotton, Upland ...	2,142	1,786	666	2,538	994
Tobacco	253	-346	-453	-569	-280
Dairy	2,337	1,166	1,295	662	893
Soybeans	1,597	-476	-1,676	-32	116
Honey	89	73	100	60	55
Wool	123	152	131	89	98
Disaster Assist. .	- 0 -	- 0 -	- 0 -	4,515 a/	- 0 -
Other	2,702	2,344	2,539	2,260	2,130
Total CCC Outlays Under Current Law	$25,841	$22,408	$12,461	$13,843	$11,579

Notwithstanding budget reduction action in 1987 and 1988, the potential for additional budget cutting in 1990 is increasing. Unfortunately, agricultural spending is often mentioned as a likely source of budget savings. Therefore, it is important to note the significant contributions agriculture already has, currently is, and is projected to make to reduce spending and subsequently deficit reduction. Agriculture recognizes the importance of reducing the federal deficit and its potential impact on the national economy. At the same time, however, Congress and the Administration must recognize that agriculture has already made a tremendous contribution towards budget savings. Therefore, equity and balance must be the order of the day should the need arise to consider additional spending reduction alternatives.

Action: As additional budget reductions are needed through either Gramm-Rudman-Hollings sequestrations or budget reconciliation actions, require that all sectors of the government and the economy share equally in any budget adjustment that is taken -- but stressing the disproportionate USDA contributions in reducing the federal deficit through sharp reductions in farm expenditures over the past three years. It should be emphasized also that USDA's annual entitlement expenditure is just under 4% of the total such federal expenditures but is potential exposed to a 20% reduction under GRH sequestration orders.

National Corn
Growers Association

Issue: MOST-FAVORED-NATION (MFN) STATUS FOR THE SOVIET UNION

Background: The history of U.S. and Soviet grain trade is simply replete with difficulties inasmuch as there has been various clashes of social, economic and political interests both at home and in third-countries. The real beginning of Soviet purchases of U.S. corn and wheat began in 1971 following the authorization of a three-year CCC line of commercial credit to the Soviet Union. That line of CCC credit provided for up to $750 million dollars of CCC credit for a three-year period of time, but not to exceed $500 million dollars of purchases within any individual year and to be repaid in three equal annual payments of both principle and interest. As you know, the Soviet Union made maximum use of that CCC credit facility, and repaid the facility on time.

Because of the U.S. concerns about the out-migration of Jewish dissidents in the early 1970's, several laws were passed that placed severe limitations on any further extensions of U.S. Government direct or indirect credits for import purchases by the Soviet Union: the Stevenson Amendment in 1972 and the Jackson-Vanik Amendment in 1974. The latter amendment required that the President must certify that the Soviet Union was, among other things, allowing the permissible applicants for Jewish out-migration each year. Since the early 1970's the Soviet record in this regard prevented any President from making that certification in the United States Congress.

Even in the absence of U.S. Government sponsored credit programs, the Soviet Union made surprisingly large purchases of both corn and wheat in the mid-1970's, a development that resulted in the 1975 US-USSR Grain Agreement that essentially limited the Soviet access to U.S. grain markets with significant supervision by the U.S. Department of Agriculture.

We need not discuss the Soviet invasion of Afghanistan and the ensuing embargo on commercial trade between the United States and the Soviet Union. Although the 1975 Grain Agreement was not abrogated, the annual purchase volume by the Soviet Union was strictly adhered to. Nonetheless, in 1983 a new and expanded five-year grain agreement went into place. It has now been extended for another two and one-quarter years, due to expire on December 31, 1990.

Recent advances and modifications of both domestic and international policies under Gorbachev in the late 1980's strongly suggest a review of the restrictions on commercial agricultural trade required by either the Stevenson Amendment, the Jackson-Vanik Amendment or both:

- scheduled Soviet withdrawal from Afghanistan
- upwards to 20,000 out-migrations of Jewish dissidents in 1988
- introduction of "perestroika" that is really a movement towards a market-oriented economy for the allocation of sources resources

- various arms control agreements and the outlook for further negotiations on other military-security matters
- Soviet initiatives to join the GATT, the World Bank, etc.
- recently concluded commercial accord between the COMECON Countries and the European Economic Community
- almost $5 billion in credits and lending facilities from EC countries to the Soviet Union

Discussion: It is now time for the United States to reassess its policies toward both agricultural and other sector trades with the Soviet Union -- if for no other reason than to remain competitive with other foreign countries and particularly with the EEC competition in grain and agricultural trade with the Soviet Union. This reassessment must begin with both the Stevenson and Jackson-Vanik amendments, as well as the long-held U.S. position to oppose Soviet membership in the General Agreement on Tariffs and Trade (GATT).

While corn and other grain trade continues to prevail under the 1985 US-USSR Grain Agreement, the real potential for U.S. corn and grain exports cannot be realized until such trade is placed on a genuine commercial basis -- including such usual commercial facilities as credit and including CCC credits for Soviet purchases of U.S. corn and agricultural products (see Attachment "A" called "U.S. - U.S.S.R. Grain Agreement").

Within the context of further federal budget reductions that will result in further declines in federal outlays for U.S. corn and agricultural programs, we must look to increased disappearance of our agricultural production in order to realize higher prices from the marketplace. There is no better way to achieve this goal than to put into place commercial credit and export policies for agricultural exports, such as the re-authorization of commercial CCC credits to the Soviet Union and the U.S. support of Soviet membership in the General Agreements on Tariffs and Trade.

Most-Favored Nation (MFN) status is a commitment by a country to extend to another country the lowest tariff rates or the most favorable non-tariffs policies that it applies to any third country. All contracting parties to the General Agreement on Tariffs and Trade (GATT) undertake to apply such nondiscriminatory treatment to each other. The United States bilaterally extends MFN status to all market economies, but excludes non-market economies from receiving MFN benefits, with the exception of Poland, Hungary and Yugoslavia. For the U.S., the denying of MFN status is directly linked to human rights issues through the Jackson-Vanik provisions in the Trade Act of 1974. The objective of Jackson-Vanik is to exert economic pressure on non-market economies to allow free emigration of their citizens. In the case of the Soviet Union, the human rights issue is closely tied to allowing Jewish emigration.

The U.S. is prohibited by Jackson-Vanik from granting non-market economies the following: (1) Most-Favored Nation treatment if they did not already qualify on January 3, 1975 (Poland and Yugoslavia qualified), (2) U.S. government credit or credit guarantees, or investment guarantees, and (3) commercial agreements that provide for MFN treatment or other mutual rights and obligations. The lack of MFN status, and the discriminatory treatment implicit in that restriction, are of major concern to the Soviet Union in its trade relations with the United States.

The U.S. has had a large trade surplus with the Soviet Union largely because of Soviet grain imports. The Soviets believe strongly in reciprocal trade and have attempted to link reduced grain purchases to efforts to eliminate the trade deficit with the United States. The granting of MFN status to the Soviet Union would eliminate discrimination against Soviet imports into the U.S. and allow the Soviets to compete on a more equitable basis with other suppliers. An increase in U.S. access of Soviet goods could translate into an increase in Soviet purchases of U.S. agricultural commodities.

Action: Urge the U.S. to offer Most-Favored Nation (MFN) status to the U.S.S.R., and the necessary modifications of law to accomplish this objective.

ATTACHMENT "A"

U.S. - U.S.S.R. LONG TERM GRAIN AGREEMENT

The salient provisions in the 1983 grain agreement were as follows, and the five-year agreement was extended until December 30, 1990:

- the United States would offer at least four million tons of corn; four million tons of wheat, and/or 500,000 tons of soybeans to the Soviet Union each year of the agreement. Soviet purchases of the 500,000 tons of soybeans would count for one million tons of either corn, wheat or both.

- the Soviet Union would purchase at least the annual minimum of corn, wheat and/or soybeans each year, with the benefit of increasing its annual corn and wheat purchases by an additional three million tons without any further consultations with the United States.

- under Article I of the 1983 Agreement, it is specified "... purchases/sales of commodities under this Agreement will be made at the market price prevailing for these products at the time of purchase/sales and in accordance with normal commercial terms..."

For the period from October 1, 1983, to the present, U.S. grain export sales to the Soviet Union for import purchases have been as follows as of March 15, 1989:

Year 1/	Corn	Wheat	Soybeans	Soymeal	Total
		(Million Tons)			
1983/84	6.5	7.6	0.5	-0-	14.6
1984/85	16.7	2.9	-0-	-0-	18.7
1985/86	6.8	0.2	1.5	-0-	8.5
1986/87	1.5	-0-	-0-	-0-	1.5
1987/88	5.2	9.1	0.8	1.3	16.4
1988/89 2/	10.2	4.0	0.5	1.4	16.4
Cum. Totals	45.9	23.8	3.3	2.7	75.7

1/ Shipping year of the basis of October 1 - September 30.
2/ 507,000 tons of U.S. grain sorghum has been purchased by the Soviet Union, and is not included in "Total".

National Corn
Growers Association

Issue: SUGAR

Background: The 1985 Farm Bill extended the sugar program and its 18 cents per pound loan rate through 1990. To eliminate the prospect of financial exposure to the federal government, the legislation required that the sugar program be operated at "no net cost". Accordingly, the USDA annually adjusts the sugar import quota to maintain this economic equilibrium.

Since its inception, the sugar program has been under almost continuous attack from the administration and sugar users. Most recently, legislation was introduced to cut the loan rate from 18 cents per pound to 12 cents per pound, provide "transition" payments to sugar beet and sugar cane growers and establish an annual import quota at not less than 2 million short tons. The importance of the U.S. Sugar Program to corn growers cannot be understated. In 1987 alone, 540 million bushels of corn were consumed to produce high fructose corn sweeteners, providing corn growers with their third largest market behind livestock and export markets.

Unfortunately, this legislative proposal does little to resolve many of the problems it was designed to benefit-consumer prices, Caribbean Basin countries, and the balance of trade. To exemplify this point, on September 5, 1986, Secretary of Agriculture Richard Lyng stated ...

> "EC farm price supports throughout the 1970s pushed the Community from status as a net importer to a major producer and a net exporter of sugar. Since 1977, when the EC became a net exporter, internal price supports for sugar have risen by 70 percent. During that time, the EC has dumped on the world market nearly 25 million metric tons of sugar. 'Dumped' is the apt term because the EC has taken every measure to avoid accumulation of ending stocks. During the years since 1977, EC ending stocks have not changed while world ending stocks have increased by more than 25 million tons."
>
> The less developed countries bear the brunt of this policy. Dumping sugar has depressed the prices of the stocks which they must sell. This has resulted in billions of dollars of losses in export earnings."

In addition to EC dumping, another pressure undermining the viability of the sugar program is rapidly expanding imports of sugar-containing products. These imports have increased by more than 300 percent since 1982, totalling 1.48 million short tons in 1986.

Discussion: It is difficult, it not impossible, to modify the sugar program as long as EC dumping continues and the importation of sugar-containing products is not controlled.

The current sugar program works

- at no cost to the federal government.

- as resistance to predatory foreign sugar policies. The average world cost of raw sugar is $.15 per pound for cane and $.23 per beet, but the current world price is approximately $.08 per pound due to foreign subsidies. Weakening the sugar program would signal U.S. acquiescence to the unfair sugar subsidies of the EC and other exporters.

- as protection for U.S. consumers. Lower sugar supports which would destroy the U.S. industry, will not lower prices for consumers but will leave the consumers at the mercy of volatile world sugar prices. In the end, U.S. consumers may pay more for sweeteners, not less. For example, since 1980, although U.S. sugar prices have gone down 5.3 per cent, the price of sugar-containing products has risen 30 percent, since industrial users have not passed on savings.

- to preserve a competitive domestic industry. U.S. sugar is produced at about the average world cost. High fructose corn sweeteners are the lowest cost sweeteners in the world.

Action: The NCGA strongly supports maintaining the sugar program to insulate the U.S. sweetener industry from the effects of foreign subsidized sugar exports until such foreign subsidies are eliminated.

National Corn
Growers Association

Issue: DEGRADABLE PLASTICS

Background: Since the late 1940s, the use of plastics for packaging has grown by leaps and bounds. The proportion of plastic in waste has grown to the point where the immense quantities requiring disposal have become a problem.

Plastics waste is not only a problem in waste management. Improper disposal of plastic materials in waterways and on land has become an increasing concern due to its unsightly nature and the damage caused to wildlife through entrapment or ingestion.

Using cornstarch in the production of plastics can make them more digestible to fungi and bacteria and therefore, degrade in three to five years rather than centuries. Corn based degradable plastics not only diminish the problem of plastic wastes, but also create a new market for U.S. corn growers.

Discussion:

- Plastics contribute over 7 percent by weight and over 30 percent by volume of the garbage discarded into the solid waste stream.
- Each American currently produces about five pounds of garbage a day compared to 2.9 pounds a day in 1960.
- The EPA estimates that 27 states will face severe landfill capacity problems within five years.
- More than 90 percent of America's waste is buried in landfills.
- Landfill is the cheapest method of disposal, sometimes as low as $3 per ton. But as landfill space becomes scarce, disposal fees of more than $100 per ton have been reported.
- Incineration is another method of waste disposal. However, the public is concerned about air pollution from this method as well as toxic ash.
- Recycling has its problems including the instabilities of markets for some of the materials and technical barriers to the recycling of mixed materials especially when it relates to the many different types of plastics used.

Action: We encourage your support for initiatives to foster the development and growth of cornstarch based degradable plastics thereby creating a new market for the nation's largest renewable resource - CORN.

National Corn
Growers Association

Issue: ETHANOL

Background: The domestic fuel ethanol industry came into existence in the late 1970s in response to gasoline shortages and the need for alternate sources of liquid fuel to reduce dependence on foreign oil. While ethanol was originally used to extend supplies of petroleum-based fuels, ethanol has become one of the most valuable additives available to boost gasoline octane.

In 1988, the domestic fuel ethanol industry produced and marketed over 850 million gallons of ethanol, creating a cash market for some 340 million bushels of grain, increasing farm income by an estimated $1 billion and lowering federal farm program costs by $700 million. Ethanol has become one of the nation's premier octane enhancing additives for today's gasolines.

Today, fuel ethanol blends have won substantial consumer acceptance with an 8 percent share of the national automotive fuel market. Since 1980, consumers have driven over 500 billion miles on ethanol blended fuels, and every automobile manufacturer in the world recognizes ethanol's performance benefits and provides full warranty coverage for 10 percent ethanol blends.

In addition to raising the octane of gasoline by three full points, ethanol has a number of significant environmental benefits which make it an effective pollution reduction option for the nation's 90 carbon-monoxide and ozone non-attainment cities. Colorado is currently requiring the use of oxygenated fuels to reduce carbon-monoxide levels. Other states, Arizona, New Mexico and Nevada for example, will implement ethanol blended programs in late 1989 as part of their State Implementation Plans to come into compliance with EPA standards. Specifically, the use of ethanol blends will reduce motor vehicle emissions of carbon monoxide by approximately 25-30 percent. Because the oxygen content of an ethanol blend is almost twice that of other oxygenated fuels, its ability to reduce carbon monoxide levels is greater than any alternative oxygenated fuel.

Discussion: Since 1978, the U.S. Congress and many states have taken significant steps to encourage the production and use of fuel ethanol. Currently, the law provides for a cents per gallon excise tax exemption on any gasoline which contains at least 10 percent ethanol. The excise tax exemption expires on September 30, 1993.

Action: We encourage your continued support for initiatives to foster the development and growth of a domestic ethanol industry. Specifically, we would encourage the extension of the excise tax exemption for ethanol blended fuels to the year 2000 and the expanded use of ethanol for its environmental and octane enhancing properties to achieve a goal of 1.2 billion bushels of annual corn consumption for ethanol by 1995.

TESTIMONY OF
STEWART E. JESSUP
CHAIRMAN, U.S. RICE PRODUCERS' LEGISLATIVE GROUP
BEFORE
THE HOUSE COMMITTEE ON AGRICULTURE
HEARING ON
THE 1990 FARM BILL
WASHINGTON, D.C.
JULY 12, 1989

I appreciate this opportunity, Mr. Chairman, to appear before the Committee and present the views of the U.S. Rice Producers' Legislative Group regarding issues related to prospective 1990 farm legislation.

The U.S. Rice Producers' Legislative Group represents rice growers in Arkansas, California, Louisiana, Mississippi, Missouri and Texas. Our group includes rice growers, rice grower associations, rice marketing cooperatives, and general farm organizations concerned with rice policy.

In this effort, we work closely with the Rice Millers' Association and the Rice Council for Market Development.

I am an active rice grower. I have grown rice for more than forty years on a farm situated between Stuttgart and DeWitt in Arkansas County, which is on Arkansas' Grand Prairie.

I am also Chairman of the Board of Riceland Foods, Inc., a marketing cooperative serving farmers in eastern Arkansas and surrounding states. Riceland markets about twenty percent of the national rice crop.

Our Legislative Group strongly endorses the rice provisions of the 1985 Food Security Act. We believe the 1985 Act has worked extremely well, and we would like to see the rice provisions extended in their present form.

The rice marketing loan included in the 1985 Act has made U.S. rice competitive in world markets. It also has been instrumental in lowering the overall costs of the rice price support system.

Prior to passage of the 1985 legislation, the federal government had accumulated large inventories of the U.S. rice from forfeitures under the price support program. Those surplus stocks are now gone, and U.S. rice prices in recent months have been well above the government's loan rate.

Not only has the 1985 Act made U.S. rice competitive and reduced inventories, but it has done this while providing farmers an income safety net in the form of the target price system. This safety net guards against unfair trade competition, trade barriers, foreign policy and broad economic policy.

An example of unfair competition is the virtual ban of rice imports by Japan. While we open our ports to Japanese products, their ports are closed to our rice. We urge your support for opening the Japanese rice market to U.S. rice.

The target price system provided by the 1985 Act is a sound approach to providing an income safety net. I urge that it be included in future farm legislation.

Expanding export markets is essential to any sound U.S. agricultural policy. We believe that continuing those export programs that have proven effective in market expansion is important. Of particular importance to the rice industry are the export credits guarantee program and the Public Law 480 export programs.

The Export Enhancement Program (EEP) provided by the 1985 Act has been used to make U.S. medium grain rice competitive in Turkey by offsetting subsidized exports by the European Common Market.

The Targeted Export Assistance (TEA) program has been effective in promoting U.S. rice in important export markets such as Saudi Arabia.

The Targeted Overseas Promotion (TOP) program has benefitted U.S. rice farmers by promoting branded, value-added food products which are produced n the U.S. and sold overseas.

These programs have worked for U.S. rice producers, and we urge you to include them in the 1990 farm bill.

We understand that there are discussions for an environmental title in the 1990 farm bill. Rice farmers are vitally interested in water quality and in soil conservation. We are more than willing to reduce chemical use to the most cost-effective levels.

We do not advocate mandating any particular set of production practices since different sections of the country require different practices. We believe, however, that a practical approach which emphasizes research and education is most likely to succeed in allowing the nation to continue to produce crops while caring for the environment.

Mr. Chairman, these are the comments that we wish to offer for the Committee's consideration at this time. We will be pleased to provide additional comments on specific provisions of the 1990 farm legislation at the appropriate time.

Testimony of W. Bruce Heiden, President
National Cotton Council of America
before the House Committee on Agriculture
July 12, 1989

I am Bruce Heiden, cotton producer from Buckeye, Arizona, serving this year as president of the National Cotton Council, on whose behalf I appear. The Council is the central organization of the cotton industry, representing producers, ginners, warehousemen, seed crushers, merchants, cooperatives and textile manufacturers from the Carolinas to California.

All policy issues supported by the Council must receive an affirmative vote from a majority of the delegates or board members from each of the seven interests, voting separately. Put another way, a majority of any one segment of the industry has veto power. Thus, our recommendations have an extremely broad base of support throughout all branches of the cotton industry.

Mr. Chairman, and members of the Committee, you are to be commended for your foresight in fashioning the Food Security Act of 1985 with its strong market orientation. The marketing loan, together with the foreign market development tools included in the trade title, have given U.S. cotton a much better opportunity to be aggressive competitors in global trade than was possible under previous law.

Mr. Chairman, U.S. agriculture needs a farm program that fosters full production. We don't need programs that allow the U.S. cotton industry to be forced into the role of supply adjuster for the world.

Those needs translate into legislation that provides for a consistently competitive price, the ability to offset unfair trading practices by others, the ability to assist some of our foreign customers through special credit arrangements, and the ability to expand markets abroad through promotion and trade servicing activities.

Certainly full production is important to cotton farmers. Idling expensive land and incurring conservation expense on the idled acres are costly. And, of course, volume is absolutely vital to the cotton industry's processing and handling infrastructure. Big acreage reduction programs can absolutely devastate these essential segments of our industry.

You gave us some important pricing and marketing tools in the Food Security Act of 1985. Unfortunately, some administrative problems developed with our marketing loan at the very time we were harvesting two very large back-to-back crops. The result was a build-up in stocks and rising program costs. We believe changes that Secretary Yeutter has proposed to make will correct the administrative problems with the marketing loan, and we are confident that it is a fundamentally sound provision to be made a part of 1990 farm legislation.

Besides a consistently competitive price, new farm legislation should continue to provide for effective foreign market development. The cotton industry understands very well the value of market development. U. S. cotton farmers were among the first agricultural commodities to fund their own research and promotion program through a check-off system. Also, through the National Cotton Council, the industry has given leadership to the formation and support of the International Institute of Cotton, which uses funds from member nations to help build foreign markets for cotton. And, we have been outspoken advocates for a strong government involvement in research and market development.

PL 480, GSM Credit, the Export Enhancement Program (EEP), the Targeted Export Assistance (TEA) Program, the Soybean and Cottonseed Oil Assistance Program (SCOAP) and other market development provisions of current law have been important components in U.S. cotton's total marketing program. We strongly urge you to keep these vital program provisions in 1990 farm legislation.

There are a number of other provisions of the 1985 Act that we also support and request that they, too, become elements of new legislation.

The target price/deficiency payment provisions have now been in place since the 1974 crop. For the first seven years they were authorized, no cotton deficiency payments were made because the market price was higher than the target. And it was during this period that the target price was indexed according to changes in cotton production costs.

The National Cotton Council, in 1981, requested that this practice be continued in the legislation of that year, and that cost per acre rather than cost per pound be used to avoid the wide year-to-year variations in cost per pound that result from weather. Instead, Congress chose to set arbitrary minimums that had to be changed before the act expired. The arbitrary figures were continued in the 1985 Act, except that this time they were lower each year rather than higher. The cotton industry believes that change in total production cost is still the best method of adjusting target prices year-to-year from a starting point no lower than the 1990 level.

Base acreage is another key element of the 1985 Act which has worked well and which we believe should be continued virtually unchanged. We presented testimony on this subject last month before your subcommittees and will not take your valuable time to repeat it. I might just mention that some 1.3 million acres of needless and unnecessary base was eliminated during the last four years, but at the same time, new production was not stifled. Included in our recommendation is continuation of the section of law that gives the Secretary of Agriculture authority to allow transfer of bases among crops within the farm acreage base. We do recommend two small changes. To avoid forcing uneconomical production just to protect base, we request that growers be allowed to certify zero cotton production, protect base, and plant other crops on that acreage. Of course, no deficiency payments would be earned.

The other minor change has to do with disaster situations. As it stands now, when drought or other weather problems make it highly unlikely that a crop can be made, growers will frequently put seed in the ground just to qualify for deficiency payments. We believe that in such cases the farmer should be allowed to certify zero plantings to protect base and collect the deficiency payment.

Our industry has generally not favored the 0/92 provision available to grain producers because it would create hardship for ginners and other cotton handlers. In addition, we do not particularly like the "something for nothing" connotations. But, in the disaster situation we think it makes good sense.

Moving now to payment yield, the 1985 Act gives the Secretary discretion to use either the 1981-85 average of program yield with adjustment, or to go to moving average of actual yield. The Secretary has chosen to go with the program yield, which, of course, means that actual yields are not presently being used. As a result, many county ASCS offices are no longer even recording actual yields, which may make it extremely difficult ever to return to their use. We would request that ASCS offices be required to record actual yields if the grower requests it, and that the decision to use program yields or actual yields be at the option of the individual grower rather than the Secretary. Two examples may help illustrate the need to update program yields with actual production history. Producers acquiring new cropland may inherit an abnormally low program yield that was a result of poor management practices from the previous operator. Also many producers are adding irrigation capability to their farms to offset drought years and provide for more reliable production. In these cases, current rules provide no means of reflecting higher actual yields from these improved management practices.

The 1985 Act offers a recourse loan on cotton stored in modules or trailers prior to ginning and provides for the use of generic commodity certificates in payment of government benefits. Both have worked well, and we favor continuing these provisions unchanged.

The final points we would like to make have to do with requirements for farm program eligibility. There has been considerable discussion in the last year or so of requiring growers to buy federal crop insurance as a condition of program participation. Federal crop insurance has had extremely low rates of participation. In spite of efforts to make it more attractive, the plain truth is that most growers simply do not feel that its benefits justify the cost. It doesn't seem right to us to force farmers into a bad business deal.

And finally, the precedent for linkage between farm program benefits and environmental concerns was established with the "sod-buster/swamp-buster" provisions of the 1985 Act. There has been discussion of extending this principle to cover other environmental concerns.

Farmers are as much interested in preserving a balanced environment as any other segment of the population. Our plea simply is, and has been for many years, that before additional regulations are put in place or linkage with farm program benefits is required, that a sound scientific data base be established which determines the source and extent of agriculture's effect on the environment. Farmers do not object — in fact, they want to do their part in protecting the environment. But too often they have been victims of scare tactics where dangers of pesticides have been over-blown. We urge you to be absolutely certain that any linkages are based on sound information rather then political pressure generated by the shrill voices of extremists.

As you are aware, a number of states now have environmental regulations that equal or exceed federal standards. In such states, all farmers should be considered in compliance for the purpose of farm program benefits.

You may have noted, Mr. Chairman, that there are some important farm program issues that we did not address. This is because our industry simply has not had time to work out a unified position. I feel confident that we will be able later on to come back to you with recommendations in these other areas.

We appreciate your willingness to hear our views.

Presented by Mr. Wilbur Gamble

National Peanut Growers Group

Mr. Chairman, it is a pleasure to appear before your committee on behalf of the producer segment of the nation's peanut industry. I am Wilbur Gamble, Chairman of the Georgia Peanut Commission and a member of the National Peanut Growers Group. Today, I am representing Mr. James Earl Mobley, Chairman of the National Peanut Growers Group. As you know, this group represents the interests of peanut producer organizations in each of the nine peanut producing states.

It seems like yesterday that we met to discuss revisions to the Peanut Title of 1985. You may recall at that time the producers offered several amendments to the program. Our proposals were designed to insure that the consumers of this nation would continue to be supplied with an abundant supply of healthful, nutritious peanuts and to perfect the program to assure that there was little or no cost to the U.S. government. I am happy to announce that the suggested amendments were made and that in the opinion of the peanut growers the program has operated as we envisioned.

Mr. Chairman, I thank you and the Committee for your support of the current law and offer a special thanks to Chairman Rose, Mr. Hopkins, the members of the Peanut and Tobacco Subcommittee and their staff for helping us to improve the peanut program in 1985. In addition, I would like to commend my Congressman, Mr. Hatcher, who serves on the Subcommittee, for his special help.

I am sure that you will conclude from these remarks that the National Peanut Growers Group feels that the program is working and needs little, if any, correction in 1990 legislation. As you know, every peanut planted in this country is grown for human consumption in the form of peanut butter, salted nuts, confections and oil. The production of high quality, wholesome American peanuts requires the highest level of skill and care in growing, processing, storage and handling, and manufacturing. The result of this care and applied technology is the delivery to American consumers the finest, cleanest and most wholesome peanut products in the world.

The peanut program operates on a unique two-tier system. The program prescribes that the Secretary of Agriculture shall estimate the market level for domestic edible peanuts, seed and related use, based on actual anticipated needs, annually. In addition, under the program a two-tier support price is established each year by the Secretary; separate prices are established for the domestic market and for peanuts produced in excess of domestic needs.

Excess peanuts are marketed as exports and are crushed for oil. All peanuts produced in excess of the Domestic Edible Market are eligible for a support price, determined annually by the Secretary, as having no potential for cost to the U.S. Treasury. Additional peanuts are therefore priced in the marketplace to meet international competition for edible peanuts or for oil. In the 1981 Act all restrictions were removed from the production of peanuts. Any farmer who desired could grow peanuts for the export market. The Act also provided that those producers were afforded entry to the domestic market.

Other provisions of the 1985 program insured that there would be little or no program costs to the government. Peanuts are perishable. For that reason offers for crushing sales of loan peanuts, not committed for edible sales, are commenced months prior to the end of the marketing year to assure that all loan inventories are sold and delivered at least 30 days before the end of the marketing year. There is no carryover of stock in the modern peanut program. If a pool is required to crush a large number of peanuts at a loss to the pool, the other area pools must make up those losses before patronage dividends are distributed. Since the passage of the modern peanut program, cost to the government has been going down. The Department of Agriculture's projections from the CBO February 1989 baseline show the program outlays for 1989 at $ 5 million, reducing to $ 4 million in 1990 and beyond. By 1990 the only significant cost to the government for the peanut program will be for administration of the program.

Perhaps the most significant success in the peanut program is the high degree of consumer acceptance of the domestic products. An article published in Progressive Grocer in July 1988, studying spreads and syrups, reported peanut butter sales for 1987 at $ 659.08 million, an increase in sales over 1986 of 12.20%. In 1987 the gross profit from peanut butter was $ 107.61 million. It appears that the National Peanut Program is working well for all segments of the industry and as I mentioned earlier, the National Peanuts Growers Group will offer only minor changes in 1990.

That concludes my remarks, Mr. Chairman. I would be happy to answer any questions regarding policies of the National Peanut Growers Group.

TESTIMONY

U.S. BEET SUGAR INDUSTRY WITNESS

BEFORE THE HOUSE AGRICULTURE COMMITTEE

July 12, 1989

Mr. Chairman: My name is Craig Anderson, I am a farmer and sugarbeet grower from Longmont, Colorado and past President of Mountain States Beet Growers Marketing Association. As the designated spokesperson for the United States beet Sugar industry, I appreciate the opportunity to appear before the committee today.

Mr. Chairman, for many years producer and processor representatives of the U.S. sugar industry have come before this distinguished committee to discuss the problems of the international sugar market and its potentially devastating impact on our nation, U.S. consumers and industry. As we begin these important deliberations on the 1990 Farm Bill, I can tell you that our concerns have not changed because the problem has not changed.

The price for sugar on the world market during the 1980s has been below 3¢ per pound and above 41¢ per pound. Left unprotected from these violent price swings, both consumers and producers are seriously injured. The reason the problem has not changed is because the causes of the problem remain unchanged. All major sugar-producing and consuming nations continue to maintain some form of protection and price stabilization for their sugar industries and consumers. Exhibit A, attached to this testimony, is a summary of the types of supports and protections utilized by the major sugar producers.

In the absence of an effective international sugar agreement or a multi-lateral agreement to change sugar programs around the world, this committee has skillfully designed and the Congress has strongly supported the current sugar program. The following goals of the program continue to be achieved.

First and foremost, a ready supply of a high quality product has meant no shortages of this important commodity which is essential in the American food chain. Second, price stability allows producers and our bankers whom we depend upon to make plans for more than one year at time. More importantly, fair and stable prices are a major benefit for consumers. Retail sugar prices in Washington, D.C. are about the average for other major world capitals. And, on a national basis, U.S. sugar prices have averaged lower since the program was enacted than the three years prior to 1982.

We have been accused of ripping off American consumers (we call it the "big $3 billion lie"), but the fact is that from 1981 through 1988, the retail price of sugar in the U.S. has actually declined 8.5%. During the same period, the U.S. Department of Labor"s consumer price index for ten categories of sweetener-containing products has increased 26.7%.

In order to maintain price stability you have given the Administration the authority to make adjustments to imports. Any questions regarding price fluctuations should focus on the Administration of the program and not the program itself.

We saw the previous Administration mismanage the program in ways that stimulated its critics. The unreasonably low import quotas initially set for 1988, for example, were accompanied by cries of anguish by Administration officials and set off a flurry of editorial hand-wringing. But, when the quota was increased 34% at mid-year, almost nobody noticed.

Instead, attention was focused on an "analysis" of U.S. sugar policy published -- not by the Department of Agriculutre, but by the International Trade Administration in the U.S. Department of Commerce. This "analysis" was nothing more than a rehash of every tired old criticism of the sugar program, most of which had already been disproved or dismissed by those knowledgeable of the facts. But, you may be sure, it will be the widely-quoted reference handbook by the less-informed who believe that everything they read in a government publication must be true.

The third goal of the program has been to encourage efficient production. The loan rate has remained at the statuatory minimum of 18¢ per pound since 1985. Given the annual rate of inflation over the last four years, we are forced to increase our efficiency each year. However, adverse weather conditions during the growing season and storage period can offset those steps we have taken to increase our efficiency in both our fields and factories. Since 1981 seven beet factories have closed, so contrary to some critics of the program, there are no guarantees.

We;ve been accused of growing and expanding production under the protection of the sugar program. The fact is, since the 1980-81 marketing year to the present, world sugar production has increased 20% and the U.S. share of global output has actually declined. In four of the eight years the program has been in effect, total U.S. beet sugar production has been lower than it was the previous year.

Fourth, the addition of the "no cost" provision to the sugar title has eliminated taxpayer exposure, and it has forced the Administration to operate the program in a way which avoids forfeitures.

Finally, a major and essential industry,important to the economic well-being of our communities, has been preserved. There are 104 various sweetener processor plants located in 26 states, buying raw materials which impact over one million beet, cane and corn growers. All of these producers in turn purchase goods and services from tens of thousands of small businesses in their local communities.

U.S. sugar policy has worked well and is absolutely essential to the future of our industry. Now I would like to share some of our thoughts and concerns in the formation of the 1990 farm bill.

While we are here today discussing the future of U.S. agricultural policy, it is also being discussed in Geneva in the Uruguay round of the GATT talks. When the previous Administration announced its goal of totally ridding the world of tariff and non-tariff barriers to the international trade in agriculture, domestic sugar producers were the first commodity group to endorse the proposal. We've seen studies that show production costs for nearly half the global output for sugar are higher than ours. We believe we'd do just fine in a world free of trade constraints, producer and consumer subsidies, export rebates, etcetera--providing, of course, all nations agreed to march in lock-step with us toward that lofty goal. We were heartened some 14 months ago when Presidential Candidate George Bush assured us there would be no unilateral dismantling of the sugar program in his Administration.

More recently, however, we've been given cause for concern. The regrettable language contained in U.S. Trade Representative Carla Hills' letter to the Ambassador from El Salvador, for instance, and the failure of the USTR lawyers to successfully defend the GATT compliance of our import quota program before a GATT panel are events I know the Chairman and other members of the Comittee are keenly aware of. Our industry is heartened by the Chairman's promise to closely monitor the negotiations in progress on behalf of Congress.

Closing the barn door before the livestock vanishes is a policy my industry endorses.

We believe U.S. agricultural policies and programs should be formulated by the Congress in Washington, D.C., not by the Administration in Geneva, Switzerland. Insofar as sugar is concerned, we believe the best signal we can send our negotiators at the Uruguay Round is a comprehensive and strong domestic sugar program that will sustain a viable domestic sugar industry until such a time as all others are prepared to abandon their predatory trade practices. This will give our GATT Representatives the leverage to negotiate effectively.

We look forward to working with the Cotton, Rice and Sugar Subcommittee in working out the details of such a program.

This industry and the United States sugar price support loan program have been accused of many things. We have been accused of everything from stimulating the production of illicit drugs in Central and Latin America to fomenting revolution in the Philippines. The poverty and depravation which have prevailed in those country's sugarcane areas for generations and their slave wages and working conditions have remained unchanged without regard to the value of the sugar they produce or the access of that sugar to the U.S. market.

In closing, Mr. Chairman, we want you to know we're aware of all of the criticism, unfair and caustic characterizations of the sugar program have not been aimed solely at us producers. Surely you, Mr. Chairman, and all the members of the committee who wrote the legislation, guided it to enactment, pushed for fair and proper administration and defended it time and again have come in for more than your share of criticism, too. We've done and will continue to do what we can to educate the media and the public about what's right, proper and fair about the program. We've had some success. But, unfortunately, we simply don't have the resources so easily generated by the giant industrial users of sweetener who simply want to pay us less for what we produce.

We're grateful for what you've done. You and the rest of our champions on this Committee, as well as the others in the House and Senate, have done right by us-because you believe we're right.

On behalf of the nearly 12,000 sugarbeet growers, the 100,000 processor employees and their families, and those related industries who depend on the beet sugar industry for their livelihood, thank you very much.

TESTIMONY
OF
JACK NELSON
PRESIDENT
RIO GRANDE VALLEY SUGAR GROWERS
ON BEHALF OF
U. S. SUGARCANE GROWERS AND PROCESSORS
BEFORE THE
HOUSE COMMITTEE ON AGRICULTURE
U. S. HOUSE OF REPRESENTATIVES
JULY 12, 1989

My name is Jack Nelson, sugarcane grower and President of the Rio Grande Valley Sugar Growers, Inc., a farmer-owned cooperative located in Santa Rosa, Texas.

Thank you Mr. Chairman and Members of the Committee for holding this hearing and allowing me to express the opinions of sugar growers in the Rio Grande Valley of Texas as well as of friends in the other U. S. sugarcane producing and processing areas.

Mr. Chairman, I am proud to be one small part of an efficient AMERICAN farming operation. As a participant in the agricultural industry which produces the highest quality food and fibre of any country in the world at the lowest percent of the consumer's disposable income, we sugar farmers are no different from wheat farmers, peanut farmers, dairy farmers, corn farmers, soybean farmers, cotton farmers or any farmers in that, as efficient producers, we want to continue to produce. We just need a fair price so that we can continue to produce. We are efficient but, as individual entities, we cannot compete against highly-subsidized foreign producers or their governments. It was in response to actions of those governments that the sugar program was included in the 1981 Farm Bill and renewed in 1985. The U. S. sugar program works well but distortions in the world sugar market persist so our sugar program must continue if we are to survive.

Critics have much to say about the effect of the U. S. sugar program on our friends in the Caribbean. All sugarcane producing areas are concerned about their well-being as well and we believe that there should be continued access for those countries to our market at a reasonable level. The Caribbean Basin Initiative (CBI) Sugar Group supports the current U. S. sugar program and has given no indication that they will oppose its renewal. In the fervor to help those nations, I believe many may, however, overlook the importance of a healthy U. S. sugar industry to the well-being of agriculture in many parts of our nation. We should not sacrifice American farmers to secure the financial interests of foreign producers.

Sugarcane is produced in four states: Florida, Hawaii, Louisiana and Texas. In 1988-89 crop year, 3.39 million tons of raw sugar from sugarcane were produced in the United States, accounting for a little less than half of total U. S. sugar production and a fourth of total sweetener production.

The U. S. sugarcane industry employs over 70,000 people producing high quality cane sugar and by-products in areas where production of other crops is frequently not economically feasible. Overall, the U. S. sugarcane industry provides over $3.5 billion in economic impact while improving our trade balance and meeting the needs of consumers.

I would like to comment briefly on the operation of the present sugar program. In the 1981 through 1985 period, the program worked well when managed well. Since 1985, when the "no cost" provision was added by the Congress, the program has worked smoothly to the advantage of producers as well as consumers.

The sugarcane industry has expanded modestly in some areas under the current program. In 1981, 716,000 acres were involved in sugarcane production. Today, 807,000 acres are in production. Some expansion has occurred in Florida and Louisiana while Texas has remained constant and Hawaii has reduced its acreage by some twenty percent. Where expansion has occurred, it has been driven by the need to increase the efficiency of existing mills. Because Hawaiian acreage has far higher yields, the actual production capacity in sugarcane has not increased as much as acreage has increased.

If the sugar program guarantees a profit and is such a "good deal", as the industrial users claim, there would have been no reductions but rather a large expansion in cane production given the difficulty many farmers have experienced during this period.

The truth is there has not been a cane mill built in the U. S. since 1973 when the Rio Grande Valley Sugar Growers mill was built.

Believe me, if we had the advantage of a crystal ball back then, we probably would not have built the mill in Santa Rosa, Texas, but farmers being farmers, they did. Since then, because of world economic conditions, trade-distorting practices in the European Community and other nations and adverse weather conditions, if we were without our program, as efficient as we are, we would have to close the Texas mill.

A recent study by Professor Jerrold Leong of Oklahoma State University in conjunction with Professors Frank Scott and Ping Sun Leong of the University of Hawaii examined consumer and producer costs of a sugar price support system adequate to cover production costs during the years 1974 through 1981. That study showed the consumer cost of such a price support program for sugar to be $4.77 per capita annually whereas the demise of the industry would have cost those same consumers $21.11 per capita annually over those years. For a region such as

Hawaii, one heavily dependent on sugar production, the cost would have been much greater, some $880 per capita annually. The sugar program is therefore not only essential to the sugar producing areas of our country, but it is also a good bargain for the American consumer. If one adds the benefits accruing to American corn producers, such a program is a very good deal, indeed.

Program opponents claim that we are but a small number of farmers who receive an unfair benefit from the program. Even though there is no program cost to the American taxpayer, users allege (through self-serving economics) that it costs consumers billions of dollars per year, yet consumer prices under the program are no higher than they were before the program went into effect. In fact, USDA statistics indicate that sugar prices in the U. S. are "average" in comparison to those in other world capitals. Americans pay about half what consumers in Japan pay for sugar and less than consumers in France, Germany, Sweden, Italy, and a number of other countries as well.

A national survey conducted last year by Cambridge Reports, a very reputable polling company, found eighty percent of the 1,500 Americans polled saying the price of sugar is very fair compared to the price of other commodities. Sixty-one percent said they preferred price stability to a fluctuating price while seventy-five percent said they favor continuation of the current U. S. policy of supporting prices by limiting imports of foreign sugar. Mr. Chairman, with your permission I would like to make that poll part of the hearing record.

Sugar comprises a very small part of the total cost of the products marketed by industrial users. While these corporations rank among the most profitable in the U. S., those who represent them are the ones that complain the most about the U. S. sugar program.

Any reductions in the sugar loan rate would only mean huge windfall profits for some of this nation's largest and wealthiest corporations. In our opinion this would not result in any benefit or saving for consumers. If we gave the users the one to two cents worth of sugar in a candy bar or soft drink, there is no reason to believe any savings would be passed along to the consumer.

Before closing, I would like to comment on recent attacks on our program. It is no secret that the U. S. sugar industry was a target of the last Administration. They were unsuccessful, except in harassment, in damaging our program. More recently our program has come under attack in the GATT. The U. S. accepted a GATT panel report finding against the U. S. use of the Headnote 2 Authority in the Tariff Schedule of the United States, under which our sugar import quotas are established. U. S. negotiators had assured the domestic sweetener-producing industry that they would "strongly and vigorously" defend the U. S. position on this matter in Geneva. Obviously, they failed. Support from your committee and others in the Congress has discouraged immediate response and elimination of quotas. We will be working with the Administration and the Congress to resolve this situation in the next Farm Bill and in the Uruguay Round trade negotiations. Also pending is an EC complaint against our use of U. S. Section 22 Authority on sugar-containing products. There is some fear that the whole GATT negotiating process marks a not-so-veiled attempt to transfer the authority of this Congressional committee and the Congress for setting agricultural policy to the Office of U. S. Trade Representative and others in the Executive Branch. If this happens, American farmers will certainly be in serious trouble.

Mr. Chairman, under your leadership, the Congress has provided a "balanced fulcrum" for the U. S. sugar industry over the last 8 years. You have helped fend off the well financed but senseless attacks on the sugar program. Now time has come to look to the future and the domestic sugarcane industry stands ready to be a part of the solution to any problems which may exist either domestically or internationally. The sugar program expires at the end of the 1990-1991 crop. The domestic sugarcane industry looks forward to working with the Congress and leadership of the Agriculture Committees in developing a farm policy for sugar in the 1990s that is reasonable which will provide a favorable economic climate for continued sugar production in the U. S. We believe the current program provides a firm foundation on which to build such a program.

(Attachment follows:)

CAMBRIDGE
REPORTS

Cambridge Reports, Inc.

American Attitudes Toward U.S. Sugar Policy

Prepared for
U.S. Sweetener Producers Group

SURVEY SUMMARY

The following data were collected in a national telephone survey conducted by Cambridge Reports, Inc., between May 6 and May 22 among a scientifically selected sample of 1500 adult Americans. The survey was designed to reflect the overall population.

SUPPORT

- 73% think the American sugar industry should be protected by limiting imports of foreign sugar;
- 75% favor continuing the current US sugar policy of supporting prices by limiting imports of foreign sugar;
- 70% agree that current US policy promotes both a stable price and an ample supply of sugar, which benefits consumers and producers alike.

TRADE

- 73% prefer a sugar policy that expands the market for US sugar growers at the expense of US allies, rather than a policy that increases sugar imports from US allies at the expense of US farmers;
- 62% say removing the US sugar price support program could drive US sugar farmers out of business and make American consumers dependent on other countries--whose farmers are protected--for its sugar supplies;
- 73% think American sugar farmers need their price support program until other sugar-producing nations are willing to compete fairly on the world market.

JOBS

- 63% believe that if sugar supports are reduced, thousands of jobs will be lost on farms and in sugar processing and other related industries.

PROFITS

- 62% think that reducing the sugar supports would result in increased profits for major food companies like food processors and soft drink bottlers, not in increased savings for consumers;
- 86% say food manufacturers keep the price of their products about the same when the cost of an ingredient like sugar goes down, rather than reducing the price of their products the same amount.

PRICE

- 80% believe the price of sugar is fair compared with other food items;
- 61% prefer that the price of sugar remain relatively stable, rather than going up or down as market conditions change.

USE

- 54% think sugar is an important ingredient in food prepared at home and in packaged food purchased at the supermarket;
- 73% believe most of the sugar they eat comes in foods where the packager has added the sugar, rather than in foods where they have added the sugar themselves.

Methodology: This national survey, conducted between May 6 and May 22, consisted of 1500 telephone interviews. A survey of this size has a margin of error of +/-2.5 in 19 cases out of 20.

For a full copy of the survey results, write to David Williams, Vice President, or Jean Durall, Vice President, Cambridge Reports, Inc., 675 Massachusetts Avenue, Cambridge, MA 02139.

This survey was conducted for the US Sweetener Producers Group, a non-profit corporation that represents the interests of the more than one million beet, cane and corn farmers who produce sugar and corn for sweetener. The Group also represents thousands of workers in sugar production and processing, and in other related industries such as transportation.

1. Some people are very positive about sugar and sweetened foods, while other people are more negative about sugar. On a scale of "1" to "7," where "1" means "very negative" and "7" means "very positive," how do you feel about sugar and sweetened foods overall?

	1	2	3	4	5	6	7	8
SCALE:	Very negative					Very positive		(Don't know)

	1	2	3	4	5	6	7	8
Overall	16%	6	15	22	20	5	15	2
Northeast	22%	9	14	20	18	5	10	1
Industrial	18%	5	15	22	19	5	15	1
Midlands	14%	4	20	24	19	4	15	1
South	15%	7	14	23	19	4	16	2
Central	14%	8	14	20	22	7	14	2
Pacific	12%	6	13	23	23	6	15	2

2. How important is sugar as an ingredient in the food you prepare at home and in packaged food you buy at the supermarket--would you say it is a very important ingredient, somewhat important, not very important, or not important at all?

SCALE:
1. Very important
2. Somewhat important
3. Not very important
4. Not important at all
5. (Don't know)

	1	2	3	4	5
Overall	18%	36	28	18	1
Northeast	15%	31	31	23	--
Industrial	19%	37	23	19	1
Midlands	18%	40	22	19	1
South	20%	36	29	14	--
Central	19%	35	31	14	1
Pacific	14%	38	30	19	--

3. **Now, thinking about all the sugar you eat in various foods, would you say that most of the sugar you eat comes from sugar you add to foods yourself, or does most of the sugar you eat come in foods where the packager has added the sugar directly?**

SCALE:
1. **Most of the sugar comes from sugar I add myself**
2. **Most of the sugar comes from sugar added by the packager**
3. **(Both equal)**
4. **(Don't eat sugar)**
5. (Don't know)

	1	2	3	4	5
Overall	20%	73	3	2	2
Northeast	18%	73	4	2	2
Industrial	19%	75	3	2	2
Midlands	16%	79	2	1	1
South	24%	69	4	2	3
Central	23%	74	1	1	--
Pacific	20%	71	4	4	1

4. All things considered, do you think the cost of sugar has gone up, gone down, or stayed about the same over the last five years?

SCALE:
1. Gone up
2. Gone down
3. Stayed the same
4. (Don't know)

	1	2	3	4
Overall	32%	8	47	13
Northeast	32%	8	44	16
Industrial	33%	8	47	12
Midlands	29%	9	48	14
South	32%	8	50	10
Central	28%	7	50	15
Pacific	37%	6	42	15

5. **Compared with other food items, would you say that the price of sugar is very fair, somewhat fair, not very fair, or not fair at all?**

SCALE: 1. Very fair 2. Somewhat fair
3. Not very fair 4. Not fair at all
5. (Don't know)

	1	2	3	4	5
Overall	26%	54	7	4	9
Northeast	26%	50	10	5	10
Industrial	26%	58	5	3	8
Midlands	25%	57	6	3	8
South	31%	51	7	4	6
Central	23%	55	8	4	10
Pacific	24%	53	5	6	13

6. Would you prefer that the price of sugar remain relatively stable, or that it go up and down as market conditions change?

SCALE: 1. Sugar price remains stable
2. (Don't know)
3. Sugar price goes up and down

	1	2	3
Overall	61%	7	31
Northeast	57%	7	36
Industrial	63%	7	30
Midlands	66%	9	25
South	62%	7	31
Central	59%	7	34
Pacific	61%	8	31

7. When the cost of an ingredient like sugar goes down, do you think that food manufacturers generally reduce the price of their products the same amount, or do they keep the price about the same?

SCALE: 1. Reduce the price accordingly
2. (Don't know)
3. Keep the price about the same

	1	2	3
Overall	10%	4	86
Northeast	10%	2	87
Industrial	8%	2	90
Midlands	9%	4	86
South	12%	8	80
Central	10%	3	87
Pacific	8%	6	87

8. As far as you know, is most of the sugar used in this country grown in the United States, or is it imported from other countries?

SCALE: 1. Grown in the US
2. (Don't know)
3. Imported from other countries

	1	2	3
Overall	34%	13	53
Northeast	19%	14	67
Industrial	29%	10	61
Midlands	35%	15	49
South	28%	16	56
Central	43%	12	45
Pacific	59%	9	32

9. (If imported from other countries, 53%) What country would you say provides the most sugar to the United States?

South America	16%
Cuba	12
Brazil	6
US, Hawaii, Puerto Rico	6
Central America	4
Philippines	3
Jamaica	2
Mexico	2
Caribbean	2
Asia	1
Other	2
Don't know	44

10. In fact, most of the sugar used in the United States is grown in this country. Recently there has been some controversy about the American sugar industry and foreign imports. Do you think the American sugar industry should be protected by limiting imports of foreign sugar, or not?

SCALE: 1. Yes, American sugar industry should be protected
2. (Not sure)
3. No, American sugar industry should not be protected

	1	2	3
Overall	73%	6	21
Northeast	70%	3	27
Industrial	75%	5	20
Midlands	71%	7	22
South	75%	7	18
Central	74%	7	20
Pacific	72%	6	22

11. Under current United States law, the minimum price of sugar is set at eighteen cents a pound and maintained at that price by limiting imports of sugar from other countries. Do you strongly favor, somewhat favor, somewhat oppose, or strongly oppose this policy?

SCALE: 1. Strongly favor
2. Somewhat favor
3. Somewhat oppose
4. Strongly oppose
5. (Don't know)

	1	2	3	4	5
Overall	36%	34	15	10	6
Northeast	33%	35	14	10	7
Industrial	37%	32	15	12	4
Midlands	37%	35	17	8	3
South	32%	35	15	11	8
Central	37%	35	14	8	6
Pacific	38%	30	13	13	6

Next, I'm going to read you some statements that people have made about the government's policy toward sugar and other sweeteners. For each statement, please tell me if you strongly agree, somewhat agree, somewhat disagree, or strongly disagree with that position.

SCALE:
1. Strongly agree
2. Somewhat agree
3. Somewhat disagree
4. Strongly disagree
5. (Don't know)

12. Compared with the US support price of 18 cents a pound, European countries provide higher support prices for their sugar farmers--up to 29 cents a pound--so American sugar farmers need their price support program until other sugar-producing nations are willing to compete fairly on the world market.

	1	2	3	4	5
Overall	32%	41	12	9	7
Northeast	27%	40	13	11	8
Industrial	36%	39	10	9	6
Midlands	29%	46	10	8	7
South	33%	42	11	7	7
Central	31%	42	16	6	5
Pacific	35%	36	10	10	9

13. We should reduce sugar price supports because keeping the price of sugar artificially high in this country means that American consumers spend $3 billion more a year on sugar and packaged foods containing sugar than if sugar were imported at the world market price.

	1	2	3	4	5
Overall	21%	37	20	14	9
Northeast	24%	34	18	15	10
Industrial	21%	37	20	15	7
Midlands	18%	45	19	12	7
South	21%	36	23	10	10
Central	18%	34	24	15	9
Pacific	22%	37	17	14	9

SCALE: 1. Strongly agree
2. Somewhat agree
3. Somewhat disagree
4. Strongly disagree
5. (Don't know)

14. Reducing the sugar supports would result in increased profits for major food companies like food processors and soft drink bottlers, not in increased savings for consumers.

	1	2	3	4	5
Overall	29%	33	17	12	9
Northeast	27%	35	14	16	7
Industrial	32%	28	17	15	8
Midlands	28%	38	17	10	7
South	27%	32	20	11	10
Central	27%	38	17	11	8
Pacific	32%	29	17	9	12

15. Limiting sugar imports from developing nations like the Philippines has severely damaged their economies, causing the United States to provide millions of dollars in foreign aid to these countries. If we stopped restricting our sugar imports to support American farmers, these developing nations would not need so much aid.

	1	2	3	4	5
Overall	24%	28	19	20	8
Northeast	25%	31	17	17	10
Industrial	30%	25	20	19	7
Midlands	21%	30	19	20	10
South	24%	30	18	19	9
Central	20%	26	25	20	10
Pacific	23%	27	19	25	7

SCALE: 1. Strongly agree 2. Somewhat agree
3. Somewhat disagree 4. Strongly disagree
5. (Don't know)

	1	2	3	4	5
16. US sugar supports should be reduced because they only benefit about 12,000 US farmers at the expense of millions of US consumers.					
Overall	19%	29	25	16	10
Northeast	19%	28	23	21	9
Industrial	25%	30	20	17	9
Midlands	17%	31	26	16	10
South	18%	29	26	14	13
Central	15%	31	29	16	10
Pacific	19%	28	28	16	9
17. If sugar supports are reduced, thousands of jobs will be lost--not just on the farms, but in sugar processing and other related industries.					
Overall	31%	32	20	11	7
Northeast	31%	31	19	13	5
Industrial	32%	32	19	12	4
Midlands	29%	35	18	12	5
South	30%	29	23	8	10
Central	27%	35	20	11	7
Pacific	35%	29	15	8	13
18. Without a US price support program for sugar, the price went from 6 cents to 60 cents a pound in the United States. The current policy promotes both a stable price and an ample supply, which benefits consumers and producers alike.					
Overall	27%	43	13	7	10
Northeast	25%	39	15	13	8
Industrial	32%	39	12	7	10
Midlands	22%	52	10	8	9
South	27%	45	12	6	10
Central	27%	41	14	5	13
Pacific	26%	40	15	6	13

SCALE: 1. Strongly agree
2. Somewhat agree
3. Somewhat disagree
4. Strongly disagree
5. (Don't know)

19. Virtually every sugar-producing country in the world protects its sugar farmers and consumers with price supports and import quotas. Removing the US sugar price support program could drive US sugar farmers out of business and make American consumers dependent on other countries--whose farmers are protected--for its sugar supplies.

	1	2	3	4	5
Overall	31%	31	17	13	7
Northeast	32%	27	17	17	7
Industrial	32%	26	18	17	6
Midlands	30%	34	17	11	7
South	31%	33	17	11	8
Central	31%	38	14	10	7
Pacific	29%	32	16	14	10

20. Some people say that supporting US sugar prices at eighteen cents a pound when sugar sells on the world market for less is like a hidden tax on food products that contain sugar, and that such supports should be reduced or eliminated. Other people say that protecting the American farmer and thousands of jobs in this country is worth an extra price for sugar in the supermarket. Which of these views comes closer to your own opinion?

SCALE: 1. US sugar supports are a hidden tax
2. (Don't know)
3. Protecting farmers and jobs is worth an extra cost

	1	2	3
Overall	20%	8	71
Northeast	28%	11	61
Industrial	18%	4	78
Midlands	18%	11	71
South	19%	9	72
Central	21%	8	72
Pacific	20%	11	70

21. Under the current sugar price support program, the amount of imported foreign sugar has actually gone down about 75% since 1984. This reduction in sugar imports has created a major market for US sugar beet, sugar cane, and corn farmers in meeting the country's need for sweeteners. At the same time, traditional foreign suppliers who are friendly to the United States have suffered economically because the United States is buying less of their sugar. If you had to choose between a sugar policy that expands the market for US sugar growers at the expense of US allies, or a sugar policy that increases sugar imports from US allies at the expense of US farmers, which would you choose?

SCALE: 1. A policy that expands market for US farmers at the expense of US allies
2. A policy that increases imports at the expense of US farmers
3. (Combination)
4. (Don't know)

	1	2	3	4
Overall	73%	14	5	7
Northeast	74%	14	4	8
Industrial	73%	15	6	6
Midlands	75%	14	5	6
South	72%	14	4	10
Central	75%	13	5	7
Pacific	72%	14	8	6

22. Now that you have heard some more information about the US sugar support policy, do you strongly favor, somewhat favor, somewhat oppose, or strongly oppose continuing the current sugar policy of supporting prices by limiting imports of foreign sugar?

SCALE: 1. Strongly favor 2. Somewhat favor
3. Somewhat oppose 4. Strongly oppose
5. (Don't know)

	1	2	3	4	5
Overall	41%	34	11	8	7
Northeast	38%	32	12	10	8
Industrial	44%	30	13	9	4
Midlands	36%	39	10	5	10
South	42%	34	9	7	8
Central	41%	35	12	5	7
Pacific	41%	35	6	10	8

23. Why do you feel that way?

Favor US sugar policy, 75%

Need to save farmers' jobs	54%
Keep business here	27
Don't like importing	6
Imports cost less	1
Oppose isolationism	1
Current policy prevents price increases	1
Other	2
Don't know	8

Oppose US sugar policy, 19%

Free trade, don't like trade barriers	22%
Need to save farmers' jobs	13
Should have less government intervention	10
Keep business here	9
Imports cost less	8
Oppose isolationism	7
Don't like importing	4
Oppose subsidies	2
Current policy prevents price increases	1
Other	11
Don't know	14

Now, I'd like to ask you some questions for statistical purposes only.

24. Sex

Female	51%
Male	49

25. What is your race?

White	85%
Black	10
(Other)	4
(Refused)	1

26. What was the last grade you completed in school?

Some grade school (1-8)	3%
Some high school (9-11)	9
Graduated high school	36
Technical/vocational school	2
Some college	23
Graduated college	19
Graduate/professional school	9
(Don't know)	--

27. What is your age?

18-24	14%
25-34	24
35-44	20
45-54	13
55-64	13
65 or over	14
(Refused)	1

28. Would you please tell me in which of the categories I read is your total household income--of everyone living in this house?

$0-7,999	7%
$8-11,999	5
$12-14,999	6
$15-19,999	8
$20-24,999	11
$25-29,999	9
$30-34,999	10
$35-49,999	16
$50,000 and over	16
(Refused)	8
(Don't know)	4

29. Do you generally consider yourself as more of a liberal or more of a conservative?

Liberal	35%
(Moderate)	10
Conservative	51
(Don't know)	4

30. Are you registered to vote, or not?

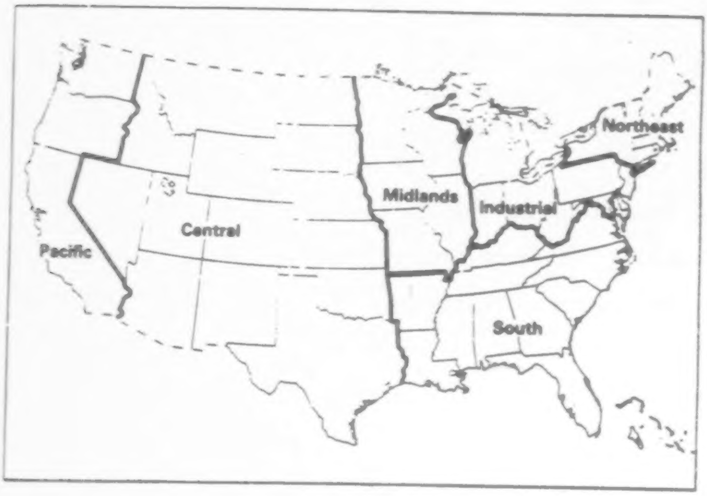
Yes	84%
(Not sure)	1
No	15

31. Generally speaking, do you usually think of yourself as a Democrat, a Republican, an Independent, or what?

Democrat	37%
Republican	26
Independent	30
(Other)	2
(Undecided)	6

32. Are you married, single, divorced, or what? Do you have any children?

Married, children	51%
Married, no children	9
Single	20
Single, children	2
Divorced, children	7
Divorced, no children	1
Widow or widower, children	7
Widow or widower, no children	2
Separated, children	1
Separated, no children	--
(Other)	--


Pacific
Central
Midlands
Industrial
Northeast
South

Cambridge Reports

Testimony of
Carl L. King, Chairman
The American Corn Growers Association

Before the

Agriculture Committee of

The House of Representatives

July 12, 1989

Mr. Chairman, Mr. Madigan, and members of the Committee, it is a pleasure for me to address you today on behalf of America's farming families that grow corn. I am a farmer from Dimmitt, Texas and am Chairman of the Texas Corn Growers Association and Chairman of the American Corn Growers Association, Washington, D.C.

The American Corn Growers Association

I am very pleased to report to you today that after only 14 months of existence, the American Corn Growers Association represents members now in 27 states, including members in every Congressional District represented on this Committee. We have state coordinators or representatives in virtually every state in the corn belt. The American Corn Growers Foundation, a purely educational effort, has received state check-off money from South Dakota and Texas, and have similar efforts underway in other states. We have conducted membership drives in a number of corn belt states, and have a national membership drive scheduled to commence in September. We are unique from any other national corn organization because we represent the corn grower only, and our policies are totally constructed and controlled by the producer. We are here to stay, and we intend to work very closely with each of you in the months and years ahead to fashion farm legislation that benefits the agricultural producers in this country.

GATT and Export Policy

Mr. Chairman, I first want you to know how deeply appreciative the American Corn Growers are that you and members of your committee made the effort to be in Geneva in April for the GATT conference. You made a tremendous difference by your presence. Our representative in Geneva, John Ford, has told us how effectively you fought both the Europeans and the U.S. administration for the principal that you, the Congress, would write U.S. agricultural policy. We do not want the 1990 Farm Bill buried in some 2000 page GATT document to be voted only up or down by Congress. Every farmer in America benefitted by your efforts. I extend my appreciation to all of you who were there: The Chairman, Mr. Stangeland, Mr. Stenholm, Mr. Huckaby, Mr. Emerson, Mr. Bob Smith, and Mr. Moody. Please go every time they meet, as it is so important.

As to export policy, after 8 years of a lot of rhetoric, today even the die-hard free traders in agriculture are changing their tune. The concept of "comparative advantage" is dead. Our feed grains are being exported at cheap prices, and at the same time, increasing production at home doesn't make sense. Just as we must have an industrial policy in this nation, and last year's trade bill wisely set us on that path, we must also have a fair agricultural policy. The Export Enhancement Program must be revamped to change its emphasis to helping gain profitability for the producer. It makes no sense to use taxpayer money to subsidize export of an American commodity at a price that is less than the cost of producing that commodity. In corn especially, our emphasis should be on new markets at home, like corn sweetener and ethanol, and programs that encourage value enhancement for our exports abroad. Trade and export should only be defined as good for American agriculture if it is defined as good for the American farmer -- the producer.

The Sugar Act

What the Administration is attempting to do to sugar through GATT is what I'm sure they would like to do to every commodity. Every corn farmer in America has a stake in the Sugar Act.

We state our strong support for the sugar program as it exists in the 1985 Farm Bill. This program has provided a source of stable income for our producers and a reliable and economical supply for the consumers.

The U.S. sugar program should not be sacrificed at the GATT negotiating table without receiving equitable adjustments from other sugar producing nations. Our concern is that our producers will be forced to unilaterally disarm. We do not want to be offered as a bargaining chip for a non-agricultural concession.

U.S. sugar policy, as well as all agricultural policy, should be dictated by Congress and the Agriculture Committee, not by GATT.

Price

We oppose the "triple base plan" and we oppose decoupling. We ask you to carefully analyze who it is that supports these concepts and why they support them. They are not the producers who reside in each of your districts. We do favor planting flexibility, and we want a program that allows farmers to respond as best possible to market trends. However, we are painfully aware that much of your decision making is, and has to be, budget driven. Our approach to this budget concern is not to spend 10 billion dollars a year to continue low prices to producers, but indeed to reduce federal outlays by managing supply so that prices don't fall below the cost of production. Even many in the EEC leadership support raising our basic loan rates. We urge your focus on higher loan rates. An effective farm program is one that establishes fair loan rates, and then effectively matches supply with demand, not only by restraining over-production, but also by significantly increasing usage.

The Environment

We are pleased with the Administration's initial legislative proposal on Clean Air, and have worked with the Administration on this effort. When passed by Congress, we see tremendous potential for a vastly expanded market for American ethanol and other alternative fuels. It is indeed refreshing, after all these years, to see this country's largest ethanol producer finally calling for an expansion of this industry. The largest single untapped market in the world for corn is for ethanol and

ETBE fuels as a blend with gasoline. Corn growers throughout America have much at stake in a genuine, national, expanded and viable ethanol industry. The American Corn Growers Association calls for extension and expansion of ethanol tax incentives at both the federal and state levels, and the ACGA was an early and strong supporter of the rapid and full commercialization of ETBE (ethyl tertiary butyl ether).

Soil Restoration

As a critical part of balancing our supply with our demand, increasing the producer price and lowering budget outlays, we strongly support expansion and redefinition of the Conservation Reserve Program (CRP). Our environment, our profitability, and the quality of our farmland for future generations can all be better served if we are far more attentive to how our land is managed.

We need to work with environmentalists by monitoring the productivity of the balance of the cropland in the U.S. for the use of future generations by the adoption of the soil restoration movement. Our farm program must be responsive to the needs of domestic commodity users such as livestock, poultry feeders, and ethanol producers.

Our policy position adopted by the full Board of ACGA is enclosed for your review.

Research and Development

Research and development should be continued for new uses of corn such as corn sweeteners, biodegradable bags, protein isolates, etc. We feel like our program will save the government billions of dollars through supply management coupled with a loan level that covers the cost of production and at least a 10% profit.

The corn producers of the American Corn Growers Association appreciate this opportunity to share these views with the Committee.

Attachment

WHAT THE AMERICAN CORN GROWERS STANDS FOR!

1989 Policy Adopted by ACGA Board, Washington, D.C., October 6, 1988

I. Congressional Farm Policy

The American Corn Growers support:

1. A 1990 Farm Bill, with major changes to the 1985 Farm Bill to be made in 1989 — we call upon Congress to **not** wait until 1991 to correct the major problems of the 1985 Farm Bill;

2. A concerted effort to defeat **any** Congressional effort at ''decoupling'' — separating government price supports from crop production. This plan is nothing more than a cynical effort on the part of the Reagan Administration to make welfare recipients out of America's farmers and to eliminate basic government support for rural America;

3. Urging Congress to adopt a **long term** and **simplified** agricultural policy that places far more discretion and power at the local ASCS level;

4. Congressional urging to states that have commodity promotion ''check-offs'' that such check-offs be suspended when commodity cost-of-production exceeds price. We feel this may encourage certain states' promotion boards to start once again working for the farmer-producer instead of the agri-business buyer.

II. Price

The American Corn Growers support:

1. A Farm Program that effectively matches supply with demand, not only by restraining over-production, but also by significantly increasing usage;

2. A Farm Program with a ''cost-of-production'' loan rate starting in 1989 that includes land and management cost, is indexed and is not less than the 1985 target price. America's producers must realize that Congress now intends to **further reduce** loan and target prices in 1989 — this must be stopped;

3. A Farm Program that would decrease government budget exposure and give farmers the opportunity to produce at a profit. The Reagan farm bills have cost over $128 billion dollars and we've still lost half a million American farming families.

4. A Farm Program that is **not** mandatory, but that strongly en-encourages participation. For example, the program could require those who choose to not participate one year could not participate for the next year also;

5. A Farm Program that changes the base and yields provisions. The basis should be calculated from actual tillable acreage and the yield should be proven annually using a moving average;

6. A Farm Program that is responsive to the needs of domestic commodity users such as livestock and poultry feeders and ethanol producers. Examples Congress should consider are either non-generic certificate programs for such users, or a two-tier price system based upon recourse and non-recourse loans.

III. Conservation and Reserve

The American Corn Growers support:

1. A Farm Program that supports the continuation and expansion of the Conservation Reserve Program (CRP);

2. A Farm Program that would maintain the productivity of the balance of the cropland in the United States for the use of future generations by the adoption of a **Soil Restoration Program (SRP);**

A. The SRP would replace the annual set-aside program and would be mandatory for voluntary participation in the price support programs;

B. The SRP Program would be based on the tillable acreage base of each farm unit;

C. USDA would participate in cost-sharing to establish soil building and wildlife enhancement crops, and acreage rotation would be required.

3. A Farm Program where reserves and carry-overs are **not** used by USDA to keep producer prices depressed as USDA now uses them. The so-called ''strategic'' reserve should be isolated from the market and not counted as part of the annual carryover, and the amount of annual carryover should trigger, by formula, the amount of set aside reserve in the SRP;

4. A Farm Program that establishes ''on farm'' storage rates at the same level as the average of commercial storage rates.

IV. Energy and Environment

The American Corn Growers support:

1. A Farm Program that is dependent upon and consistent with a new energy, environmental and trade policy in the nation. The next Congress must make major decisions in finally facing the fact that we must have a strong U.S. energy and environmental policy, one strongly based upon America's agriculture;

2. A Farm Program, as well as energy and environmental programs, that strongly support ethanol:

A. We support a genuine, nationwide ethanol policy and we will continue to strongly oppose the efforts of the country's largest ethanol producer to restrict and contain growth of this vital industry;

B. We support extension and expansion of ethanol tax incentives at both the federal and state levels;

C. We support government and private sector incentives to the production of new, farmer-owned ethanol facilities;

D. We support strong promotion of ethanol-blended fuel in all areas of the country that are in nonattainment for both ozone and carbon monoxide;

E. We support fair market practices which would eliminate retail ''no ethanol'' advertising by petroleum companies.

3. A Farm Program that recognizes that the single, largest untapped market for grain in the world is ethanol, either as a blend with gasoline or as feedstock for ethers such as ethyl tertiary butyl ether (ETBE).

A. We support the rapid and full commercialization of ETBE, as we feel such an event would offer vast new markets for America's corn growers;

B. We support the efforts of over three-quarters of the Senators in the U.S. Senate to extend existing tax incentives for ethanol or ethanol blends to ethanol used in ETBE.

V. Exports

The American Corn Growers feel our entire export policy on feed grains must be readdressed and overhauled. The present export policy for U.S. feedgrains is another example of using agricultural commodities as a political weapon. International grain companies are filling their pockets at U.S. taxpayers expense while thousands of U.S. farm families are being forced from the land for lack of a profit. The policy of lowering U.S. support prices for feed grains and soybeans to meet world market competition is a cruel hoax being hoisted on U.S. farmers.

The Reagan Administration's GATT policy of trying to force the European Economic Community to remove all of their agricultural subsidies is an outrageous policy that is purely designed to help the grain traders, not the grain producers. It is an insult to U.S. farmers to suggest that we can export our way to prosperity by giving away (''exporting'') our surplus commodities, while at the same time increasing production at home. Our Export Enhancement Program must be completely redirected so that it benefits not just the shipper and trader, but the producer as well.

VI Sugar Act

The American Corn Growers supports the U.S. Sugar Program and will urge it to be maintained for the benefit of the producer and the consumer.

VII. Research and Development

The American Corn Growers supports continued research and development into new and expanded uses for corn beyond ethanol, such as sweeteners, corn grits, protein isolates and other developments that seize on corn's potential as a raw material.

VIII. Coalition

The American Corn Growers strongly supports all members of the growing and strengthening coalition of progressive groups that support agricultural producers' interests. We will continue to expose the fact that many farm groups who claim to speak for the producers in reality speak for those who want the farmer to have lower prices. We strongly support broadening the farm coalition to interests fully compatible with the grower by including environmental, energy and genuine alternative energy groups. Together, we intend to change the way Congress thinks about agricultural policy in this country.

American Oat Association
Producing Oats and Oat Products for a Healthy America

STATEMENT OF JOHN BOLLINGBERG
AMERICAN OAT ASSOCIATION

BEFORE THE
COMMITTEE ON AGRICULTURE
U.S. HOUSE OF REPRESENTATIVES
JULY 12, 1989

Mr. Chairman and Members of the Committee:

I appreciate this opportunity to appear before you this afternoon to discuss the American Oat Association's recommendations for the 1990 farm bill.

I am John Bollingberg, an oat producer from Bremen, North Dakota and a member of the Board of Directors of the American Oat Association (AOA).

The AOA was formed last November to represent the interests of the entire domestic oats industry -- from producers to processors. We represent oat farmers and seed companies from all the major oat producing states, including North and South Dakota, Iowa, Minnesota, Wisconsin and Nebraska. We also represent several major oat millers and processors, such as Quaker Oats, General Mills and ConAgra.

Over the past year, there has been a tremendous explosion of interest in oats based on research findings that oat bran, when combined with a low-fat, low-cholesterol diet, can actually **lower** cholesterol levels. As a result of this research, health-conscious American consumers have dramatically boosted their demand for oat-based products. The amount of oats used for food has risen steadily during the early 1980s and turned sharply upward in the two years. We expect this demand to continue to strengthen in the future as more and more consumers become aware of the link between diet and health and the nutritional benefits of eating oats.

Although consumer demand for oats is at an all-time high, U.S. production of oats has remained at a level insufficient to meet domestic demand. This production shortfall has forced the United States into large-scale imports of foreign oats to augment domestic supplies, making oats the **only** major grain imported in any quantity into the United States today.

The United States became a net importer of oats in 1982 and oat imports have risen steadily since that time. Oat imports accounted for less than 1 percent of production in 1982, but rose to approximately 28 percent of production last year when the United States imported 60 million bushels. While imports of this magnitude were due in some part to last summer's drought, the greater part of this shortfall was a direct result of years of production declines. Indeed, even before the drought, U.S. oat production in 1988 was expected to hit a 100-year low.

U.S. oat production is expected to rebound slightly this year due to an important flexible planting provision for 1989 crop oats, but imports are still expected to reach 40 million bushels.

The continued domestic shortfall of oats is of major concern to the AOA. We are extremely concerned about the growing reliance on foreign sources of a basic grain such as oats. We find that many of these imported oats are inferior to domestically produced oats, especially in terms of protein. And we strongly believe that American, rather than foreign, producers should be the major beneficiaries of the growing consumer demand for oats.

Why the shortage of oats? The answer lies largely with current farm programs and the way they are implemented. Although the Food Security Act of 1985 has been successful in making U.S. agriculture more competitive in world markets, in bringing supply and demand more into balance for most major commodities, and in reducing the budgetary cost of these programs, it has **not** benefited all commodities equally. This is especially true in the case of oats.

The problem is threefold:

1) Both the 1981 and 1985 farm acts, and the Department of Agriculture's implementation of the feed grains program authorized under those laws, set oat target prices too low relative to other competing crops to provide sufficient price protection and incentives for farmers to grow oats. In fact, the oats target price level is so low as to be non-functional and, when compared to the Federal returns on competing crops, actually provides a **disincentive** to grow oats. Simply put, farmers make more money -- from the market and the Government -- when they grow corn, wheat, sorghum or barley instead of oats. And even in those instances when the oats market price is extremely strong, as it was last summer, oats become noncompetitive with these more highly supported commodities when Federal payments are factored in.

2) The problem of inequitable target prices is compounded under the current inflexible base acreage program that, in effect, locks farmers into growing the more highly supported commodities year after year, regardless of current market conditions. Prior to the flexible planting provisions for 1989 soybeans and oats, higher target prices for competing grains and farmers' natural desire to maintain maximum eligibility for those federal payments

prevented them from responding to strong soybean and oats prices. Very few farmers were willing to sacrifice their future years' wheat or corn base with its guaranteed high Federal payment for one year of high oat or soybean prices. Moreover, given the limited value of the oats base, some oats acreage shifted into soybeans in 1987/88, creating even more pressure on oat supplies.

In theory, farmers have a bit more flexibility with regard to oats and barley. These commodities have a "combined" base which allows producers to switch freely from barley to oats (and from oats to barley) without sacrificing acreage base. In reality, however, farmers plant barley because barley's target prices have historically been between 96 cents and $1.00 higher than those for oats.

3) The Conservation Reserve Program (CRP), designed to remove up to 45 million acres of highly erodible cropland from production by 1990, also has had a significant adverse effect on oats production. Oats, because they have a lower return per acre than other crops, have been relegated to the least productive acres of the farmstead, the same acres that are likely to be the first candidates for entry into the CRP.

The disproportionate amount of oats acreage moving into the conservation reserve is ironic in light of the many positive environmental benefits of growing oats.

Oats are an excellent soil erosion control crop. Unlike row crops that leave a significant portion of soil exposed to wind and water erosion, the dense cover provided by oats actually protects the soil. In certain crop rotations, oats also require minimum tillage (plowing) which helps prevent erosion -- the less a farmer has to plow up or disturb the soil, the less prone that soil is to erosion.

Oats' special properties also make them an excellent rotation crop. Not only does crop rotation in general help lessen the need for chemical fertilizer application by preserving soil fertility, oats require less nitrogen from the soil (or a minimum amount of fertilizer) when compared to many other crops.

Oats are also often used as a "natural herbicide" -- grown as a companion (or starter) crop to establish forage crops and to shade areas where weeds would grow.

All these properties make oats an environmentally-sound crop, yet oats production is being unintentionally and inappropriately restricted through the conservation reserve.

These three program provisions -- inequitable target price levels, an inflexible base acreage program and the CRP -- have prevented U.S. farmers from responding to the growing demand for high quality oats. Instead of production increases stimulated by strong oat prices, U.S. oats production remains flat or depressed.

But U.S. agriculture does not exist in a vacuum. As I noted at the outset, high U.S. prices have stimulated foreign production -- for example, Canadian oat acreage is up 15 percent this year over last year's level. This trend can be expected to continue in the absence of increased oat production at home.

Recognizing this, Congress has taken a number of important steps over the last few years to address the problem of insufficient production incentives for oats:

Pressure from several members of this Committee resulted in the Department of Agriculture's lifting of cross-compliance requirements for oat producers in the 1988 and 1989 feed grains programs, providing farmers in other commodity programs with additional flexibility to plant oats.

The Omnibus Budget Reconciliation Act of 1987 directed the Secretary of Agriculture to establish a reduced acreage program of no more than 5 percent for the 1988-90 crop oats to encourage additional plantings. With the barley ARP maintained at 20 percent, the 5 percent oats ARP was intended to allow the market price for oats to compete with the higher target price for barley. Unfortunately, although we did see a slight shift from barley to oats in 1988, both barley and oats acreage fell as farmers instead opted for the conservation reserve or planted soybeans. Moreover, the 5 percent oats ARP advantage was dramatically reduced in 1989 when the barley ARP was set at 10 percent.

Finally, and perhaps most importantly, the 1988 drought assistance package provided needed planting flexibility for oat producers. This oats program allows farmers to plant any portion of their farm acreage base to oats in 1989 and 1990 (except that designated to soybeans) if the feed grain acreage reduction program requirement is 12.5 percent or less of the crop acreage base. This amendment guarantees that additional oats plantings will not alter a farm's existing acreage base for future crop years and should provide wheat, corn and sorghum producers with increased flexibility to plant oats in response to anticipated strong oat prices.

These program changes, while important, were necessarily limited in their scope and effect by their piecemeal nature. However, the problem in oats cannot realistically be solved without a comprehensive examination of the interrelationships among all the competing program crops. Thus, the upcoming omnibus farm bill offers the best opportunity in years to address the severe problems facing the U.S. oats industry.

Resolving the shortfall of high-quality U.S. oats will be difficult. AOA remains concerned about the very real potential for increased instability in the oats sector as we attempt to bring domestic supply more in line with demand. The commodity programs crafted in the 1990 farm bill will determine if the

United States will once again become self-sufficient in oats, with a minimum amount of economic dislocation to domestic oat producers. To that end, the American Oat Association urges Congress in developing the commodity provisions of the 1990 farm bill to design programs that will:

* Provide adequate production incentives to and income protection for American oat farmers;

* Expand U.S. oat production to meet increasing demand for oat products by health-conscious American consumers; and

* Provide a stable, reliable source of high-quality U.S. oats.

To achieve these objectives, the AOA recommends the following two policy recommendations, in order of priority.

Realign target prices to remove disincentives to oats production and to provide adequate income protection to oat producers.

Such a realignment could include raising the oats target price to at least cover cash expenses or perhaps even full economic costs. It is only when target price coverage has been extended to the full economic cost of producing oats that oats will move on par with most other supported commodities.

AOA also recommends eliminating the Secretary of Agriculture's discretionary authority to set barley, oats and sorghum target prices at a rate he deems is "fair and reasonable" in relation to the corn target price, which is specified in legislation.

Since the oats target price was first mandated by Congress in 1982, the Department has consistently set the oats target price too low, particularly relative to barley, with which oats shares a base. The precise method USDA uses to determine the various feed grain targets has always been obscure. What is clear, however, is that the USDA formula does **not** use the same criteria in determining targets for each feed grain, resulting in significant imbalances among these competing commodities.

Moreover, AOA questions the wisdom of requiring target prices for the competing feed grains to be set in relation to the corn target price. This requirement biases the entire feed grain program in favor of corn and is a major factor in today's oats shortage. The feed grain target price system should be reviewed and revised to eliminate the current inherent bias toward corn at the expense of not only oats, but barley as well.

Increase planting flexibility to allow farmers to respond to market conditions.

Programs must be revised to remove the rigidity that prevents farmers from responding to current market conditions. AOA strongly supports the concept of flexible planting. Under the current system of inequitable target prices, however, we can support only those proposals that are truly market-oriented -- those programs that allow farmers to plant solely for the market, without the benefit of target price protection. The triple-base proposal falls into this category as does the flexible oats planting provision in effect this year.

AOA believes, however, that simple base substitution or reversion back to the Normal Crop Acreage (NCA) program would **not** encourage farmers to plant for the market, at least not under the current target price system. Indeed, as our experience with the combined barley/oats base has shown, farmers naturally would tend to plant the more highly supported commodities. These programs do provide farmers with flexibility, but unfortunately it is only a flexibility to "farm the farm programs." And with continued non-functional target price protection for oats, oats acreage would dramatically decline under these latter two proposals.

Base substitution or the NCA become viable market-oriented flexible planting programs only if the current target price system is revised to provide a level playing field for all program commodities. It is then, and only then, that AOA could support either of these two options.

A more equitable target price system, coupled with greater flexibility to respond to the market, will help the United States return to self-sufficiency in oats. Farmers want to grow oats, but they don't want to be penalized for doing so.

Oat millers and processors want the high-quality of U.S. oats to meet rising consumer demand. For over 50 years private industry has funded oats research in this country to develop an oats crop that is unequaled anywhere in the world in terms of quality.

And lastly, American consumers are demanding more oat-based products as they come to realize the nutritional and health benefits of eating oats. Farm programs must be revised to allow farmers the freedom to meet this demand.

Thank you again, Mr. Chairman and Members of the Committee, for this opportunity to discuss the oats program.

Oat production, price and import data, along with a comparison of subsidy levels among the competing grains, is attached.

WHEAT & FEED GRAIN PROGRAMS - 1989

	TARGET	LOAN	MAXIMUM DEFICIENCY PER BUSHEL	 PER ACRE
WHEAT	$4.10	$2.06	$2.04	$76.58
CORN	$2.84	$1.65	$1.19	$129.59
OATS	$1.50	$0.85	$0.65	$37.08
BARLEY	$2.43	$1.34	$1.09	$56.70
SORGHUM	$2.70	$1.57	$1.13	$69.95
SOYBEANS	$0.00	$4.53	$0.00	$0.00

*BASED ON 5 YEAR AVERAGE NATIONAL YIELDS

- Targets and loans for oats have been historically low relative to corn, sorghum, barley, and wheat
- Potential deficiency payments per acre for oats are 65% of barley, 48% of wheat, and 29% of corn based on 5 year national average yields
- The disparities in potential deficiency payments clearly indicate the disincentives that farm programs provide for oats production in the U.S.

CHANGE IN OATS TARGET PRICES REQUIRED TO EQUAL RETURNS FROM OTHER CROPS

1989

CORN	+ $1.62
BARLEY	+ $0.43
WHEAT	+ $0.61
SOYBEANS	+ $0.91

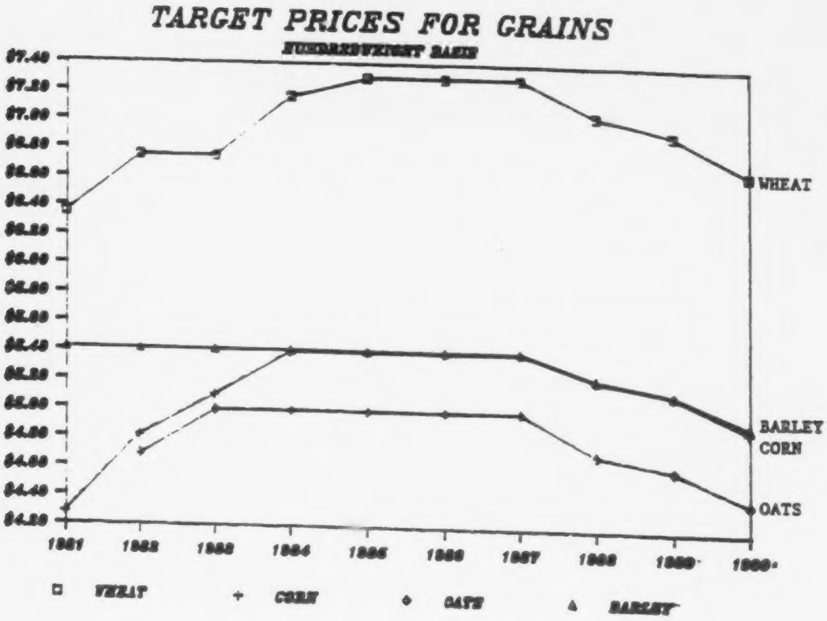
ASSUMPTIONS -

- Upper midwest (Minnesota, N. Dakota, S. Dakota, & Iowa)
- Five year average yields
- Returns over variable costs of production
- Participation in feed grain and wheat programs

CONCLUSIONS -

- For program returns for oats to equate to those for barley and wheat, oats target prices would need to be increased $0.43 and $0.61, respectively
- Competitive returns to corn would require a $1.62 increase in oats target prices
- Current loan prices for soybeans indicate a $0.91 increase to compete

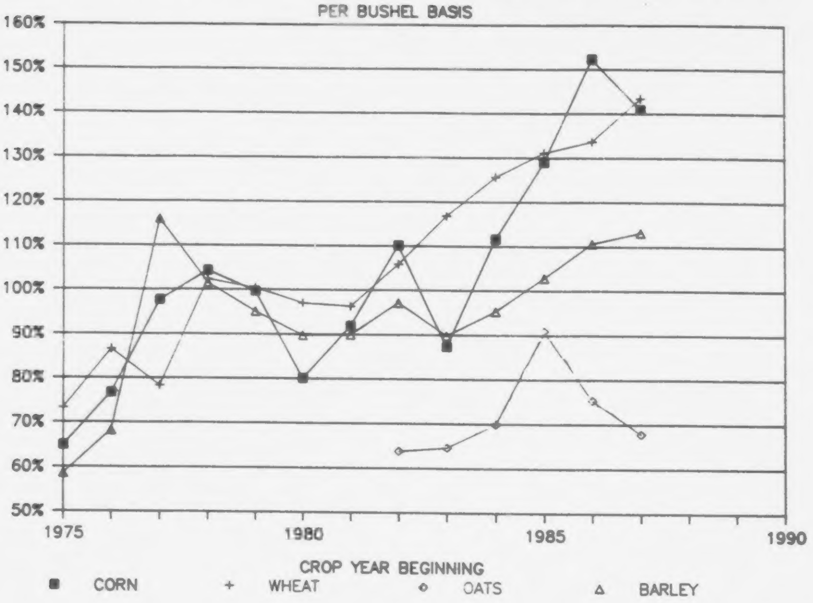
July 7, 1989



Constant weight removes the effect of varying bushel weights for the various grains.

Disparity of oats target relative to corn and barley is readily apparent on a hundredweight basis. The level for the wheat target is 46% higher than for oats.

TARGET PRICES AS A % OF ECONOMIC COST

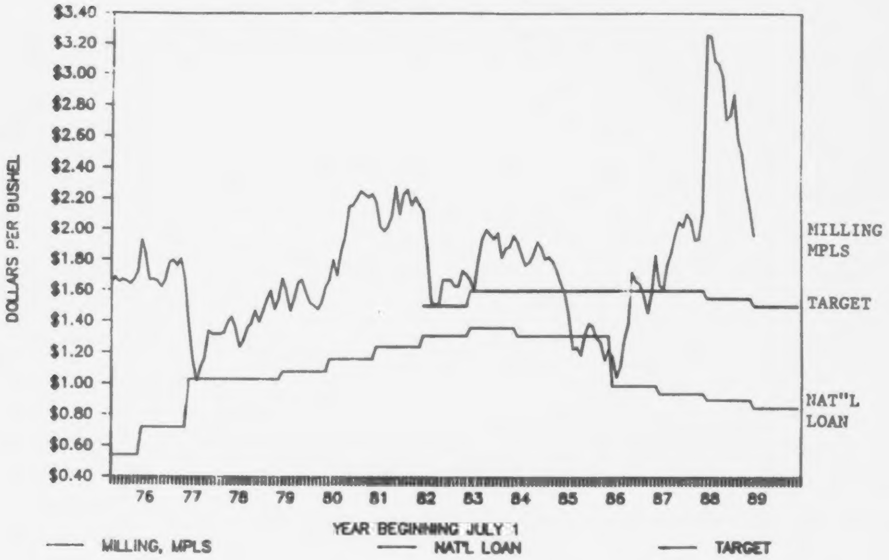


Target prices per bushel as a percent of total cost of production (including land and labor) per acre have been established at unreasonable levels in relation to barley and especially corn and wheat.

Production costs were derived from USDA's Economic Indicators of the Farm Sector--Cost of Production.

Yields were derived from USDA's final crop production report released in January 1988.

OATS – TARGET, LOAN & CASH



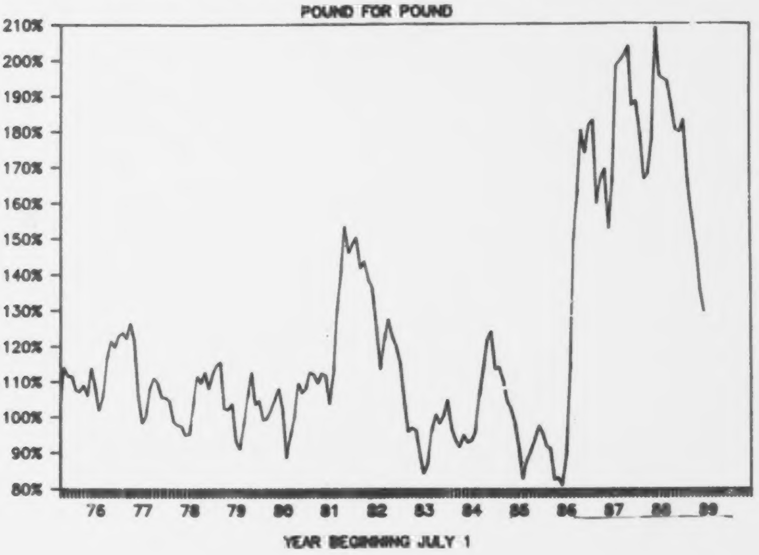
Cash prices for milling oats, Minneapolis, have seldom fallen below oats loan levels.

Since oats target prices were established in 1982, milling oats have generally maintained price levels higher than target (expect 1985/86 crop year when all grains were depressed).

Even with high oats prices in the 1988/89 crop year, producers intend to plant 5% fewer oats acres in 1989 compared to a year earlier, according to the March 1 USDA report.

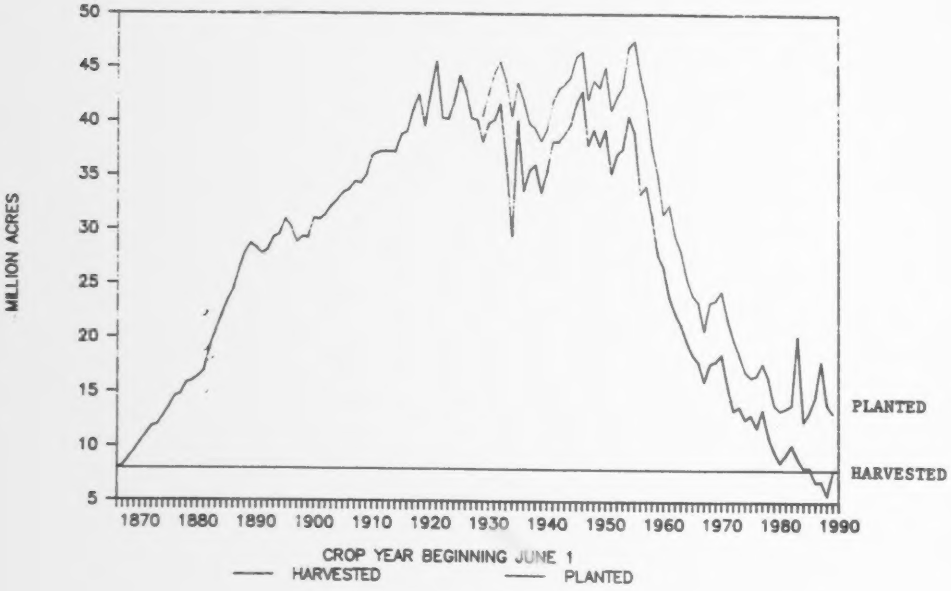
OATS – PRICE RELATIVE TO CORN

POUND FOR POUND



Despite recent declines, oats prices in the past year reached values double that of corn on a comparable weight basis, an unprecendented high level.

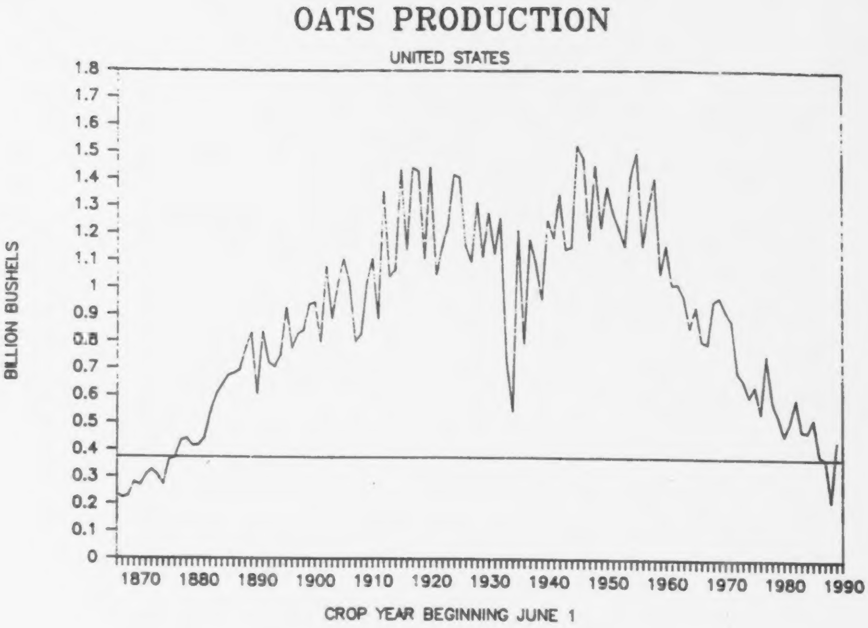
OATS – ACREAGE, UNITED STATES



Record low oats acreage harvested for grain in 1986, 1987, and 1988

Disparity of planted acreage to acreage harvested for grain in recent years relates to oats planted as cover crops on ARP, PLD, and Conservation Reserve acreage.

The unprecedented high oats prices in 1988/89 relative to other grains are not encouraging additional oats acreage with acreage intentions on March 1 down 5% from a year ago.

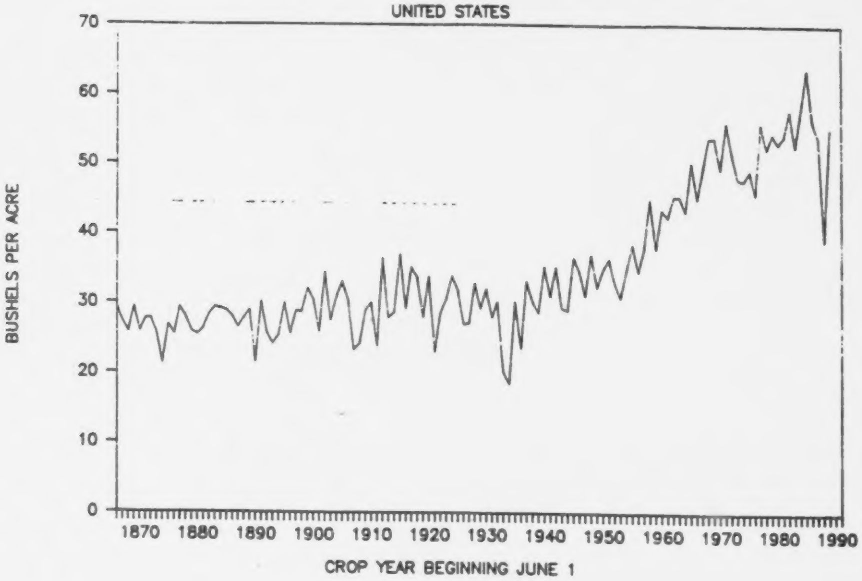


Oats production in the United States in 1988 was the smallest in recorded history.

Even in a non-drought year, 1987 oats production was the smallest since 1876.

Oats production in 1987 was down 75% from the peak in 1945 despite expanding demand for oats as a food grain.

OATS - YIELD PER ACRE



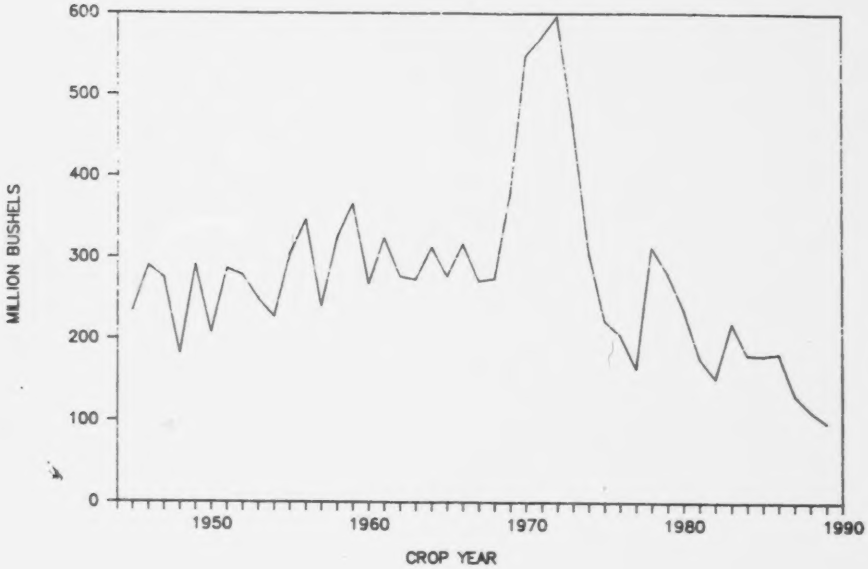
Oat yields have been on the uptrend since the early 1950's. Private funding for varietal research was started in the 1940's.

Private industry funds research at 15 public institutions in the U.S. in an effort to improve productivity per acre and to increase protein levels in oats.

A number of new varieties have been released as a result of this funding.

Ogle--A variety developed at the University of Illinois with private funding is now the most productive and most widely grown variety today.

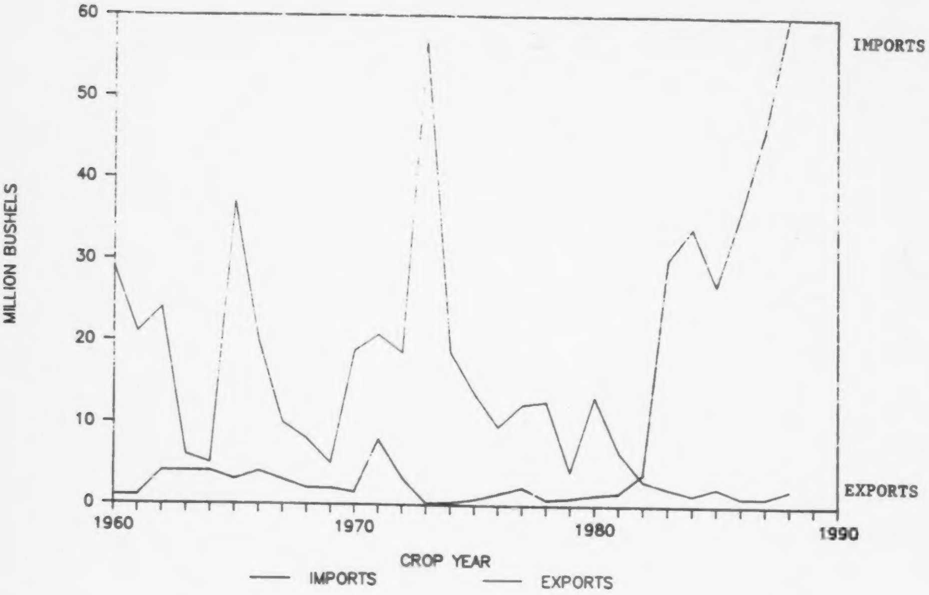
OATS – CARRYOVER STOCKS



Oats stocks on June 1, 1989 are estimated to be 98 million bushels, the smallest in recent history.

The low stocks place increased emphasis on the need for a quality oats crop in 1989.

OATS – FOREIGN TRADE, UNITED STATES



U.S. exports have dropped to insignificant levels compared to 20-30 million bushels annually in the 1960's and 1970's.

U.S. imports continue to grow, peaking at 60 million bushels in the 1988/89 crop year. Imports are forecast at 40 million bushels this year, according to USDA.

OATS - SUPPLY/DISAPPEARANCE, UNITED STATES JULY 6, 1989

	79/80	80/81	81/82	82/83	83/84	84/85	85/86	86/87	87/88	88/89
							MILLION BUSHELS			
PLANTED ACRES	14.0	13.4	13.6	14.0	20.3	12.4	13.3	14.7	18.0	13.9
HARVEST ACRES	9.7	8.7	9.4	10.3	9.1	8.2	8.2	6.9	6.9	5.6
YIELD/ACRE	54.4	53.0	54.2	57.8	52.6	58.0	63.7	56.3	54.0	39.1
JUN 1 STOCKS	279	236	177	152	219	181	180	183	133	112
PRODUCTION	527	459	510	593	477	474	521	386	374	219
IMPORTS	1	1	2	4	30	34	27	36	46	65
	---	---	---	---	---	---	---	---	---	---
SUPPLY	807	696	688	748	726	688	728	606	553	396
EXPORTS	4	13	7	3	2	1	2	2	2	2
FOOD	54	55	56	57	59	60	61	64	75	90
FEED	480	416	439	418	454	414	444	362	329	176
SEED	33	34	35	51	31	33	37	45	35	30
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DISAPPEARANCE	572	518	536	529	546	508	544	473	441	298
MAY 31 STOCKS	236	177	152	219	181	180	183	133	112	98
FREE			148	209	174	174	174	123	106	96
LOAN			4	4	2	2	5	5	0	0
RESERVE			0	5	4	3	3	4	2	0
CCC			1	1	2	1	2	2	4	2
STOCKS/USE	41%	34%	28%	42%	33%	35%	34%	28%	25%	33%

PRICES, NO. 2 HEAVY OATS, MINNEAPOLIS

	F'80	F'81	F'82	F'83	F'84	F'85	F'86	F'87	F'88	F'89
JAS	$1.54	$1.79	$2.01	$1.64	$1.78	$1.80	$1.30	$1.15	$1.74	$3.14
OND	1.64	2.09	2.16	1.62	1.97	1.88	1.30	1.59	2.01	2.81
JFM	1.50	2.23	2.22	1.64	1.89	1.81	1.31	1.55	2.03	2.65
AMJ	1.60	2.21	2.16	1.70	1.92	1.66	1.19	1.69	2.44	2.18
F'YR AVG	$1.57	$2.08	$2.14	$1.65	$1.89	$1.79	$1.28	$1.50	$2.05	$2.70
TARGET				$1.50	$1.60	$1.60	$1.60	$1.60	$1.60	$1.55
LOAN	$1.08	$1.16	$1.24	$1.31	$1.36	$1.31	$1.31	$0.99	$0.94	$0.90

STATEMENT OF NATIONAL GRAIN SORGHUM PRODUCERS ASSOCIATION
TO THE COMMITTEE ON AGRICULTURE, U.S. HOUSE OF REPRESENTATIVES

July 12, 1989

Mr. Chairman and Members of the Committee:

National Grain Sorghum Producers Association (NGSPA) appreciates the opportunity to present its views on the 1990 Farm Bill, and future agricultural programs. You will note that instead of coming before you with a request to establish a rigid or mandatory supply management program, our recommendations are to set policy guidelines that the Secretary of Agriculture will be required to implement through the various supply management and export enhancement programs that are available to him. We propose that the Secretary of Agriculture be required to hold feed grain carryover stocks at a manageable level through an individual program or a combination of programs, and operate within reasonable budgetory restraints.

NGSPA commends the Chairman for the stand he has taken in stating that future U.S. farm programs will not be written in Geneva. Our association has been very concerned about several provisions that have been promoted as the "U.S. position" for the current GATT negotiations. A few biased negotiators should not be allowed to trade off U.S. agricultural programs and interests.

The National Grain Sorghum Producers Association supports the continuation of provisions of the Food Security Act of 1985 and any additional legislation necessary that will:

1. Maintain farm income target prices at no less than the higher of (a) the 1989 levels or (b) the three-year U.S. average USDA-ERS Full Cost of Production per commodity, including land costs and 15% return to management.

2. Cut the cost of U.S. farm programs by allowing domestic market prices to more accurately reflect the cost of feed grain production. Maintain a higher domestic grain price while moving grain into the world markets by using Export Enhancement Programs to assure the U.S. share and growth in world markets. NGSPA is convinced that this approach will cut government costs since domestic consumers would not be subsidized.

3. Allow producers the flexibility of exchanging their commodity bases up to 20% per year of their total farm base, provided it does not increase the total farm base acres.

4. Require the Secretary of Agriculture to manage production programs to assure the production of all commodities needed to fill domestic and export demand, but not allow reserve or carryover stocks of more than 16% of a normal year's use of U.S. feed grains. (16% equals a two month supply.)

5. Extend the Export Enhancement Program (EEP) to include all U.S. feed grains and all purchasing countries to assure U.S. export competitiveness, to maintain and expand the U.S. market share and to annually remove all surplus feed grain stocks above 16% of a normal year's use. Emphasis on the use of EEP should be given to the grain that has the largest carryover in percentage of a year's normal usage.

6. Allow producers to retain their total farm base acres without being required to plant them to any program crops. Base acres should not be lost due to underplanting program crops. Many farmers have been forced to plant a crop that is in surplus in order to protect their base. This prevents the supply-management program from being as effective as it could be, and causes inefficient production practices in some years.

7. Incorporate the following farm program concepts:

    a. Allow producers the option of proving their program yields or accepting the established county yields.

    b. Eliminate limitation of farm program payments.

    c. Prevent decoupling of feed grain payments from commodity payments, but support the current concept of 0-92.

    d. Continue the haying and grazing provisions of the present program.

    e. Reinstate income averaging for farmers' income tax assessments.

    f. Reinstate investment tax credit programs for farmers.

    g. Continue the farmer-owned reserve with storage payments for farmers at the same level as for commercial storage.

    h. Treat agriculture equitably with other businesses on capital gains tax laws.

    i. Make Federal Crop Insurance an option, but not a requirement, of farm program participation and treat farm units which are separated geographically or as irrigated and non-irrigated as separate entities for FCIC indemnities. NGSPA also believes that the total Federal Crop Insurance and disaster programs should be carefully analyzed. NGSPA would like to offer additional suggestions about these programs when they are reviewed by your committee.

8. Maintain an aggressive export marketing program through an expanded FAS budget designed to increase export sales of U.S. agricultural products.

9. Continue current contract sanctity legislation.

10. Improve grain quality through FGIS standards based on scientific measures instead of subjective means.

11. Complete the CRP signup of no less than 40 million acres, and:

    a. Maintain the sodbuster and swampbuster programs according to the original intent of the legislation.

    b. Conduct a study to assess the harm to surrounding crop acreages from CRP land.

    c. Maintain the CRP land to control insect, disease, and weed problems.

    d. Manage the CRP allocation to minimize the adverse effect on rural communities.

12. Extend Conservation Compliance Program deadlines when plans call for improvements which are eligible for cost-sharing funds and those funds are not available.

13. Protect and assure water quality standards supported by scientific studies, taking into account differences that are unique to each region, and maintaining local control.

14. Establish environmental protection programs which are based on unbiased scientific studies and which have a fair regard for the importance of agriculture and an honest assessment of the needs of agriculture.

15. Establish and maintain food safety standards based on scientific evidence.

16. Oppose the reclassification of anhydrous ammonia as a poisonous gas.

17. Promote the use of ethanol fuels made from agricultural products.

18. Establish and conduct rural economic development programs supported jointly by the USDA and state departments of agriculture with direction from local governments.

19. Keep the Food Stamp Program in USDA.

20. Give research funding priority to projects aimed at immediate needs, such as:

    a. Cost-efficient production and low input sustainable agriculture.

    b. New uses and increased utilization of commodities now in production.

    c. Increased competitiveness of U.S. products in world markets.

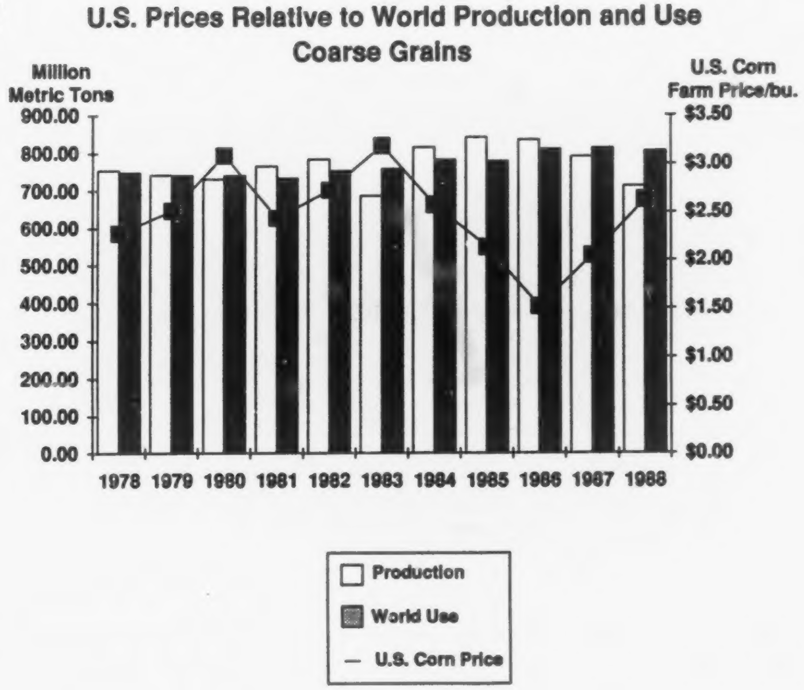
    d. Establishment of scientifically proven acceptable levels of mycotoxins and other harmful substances associated with agricultural products.

21. Establish consumer education programs to be conducted by USDA to educate U.S. consumers to the comparatively low cost of food and to the importance of agriculture to the American way of life.

Mr. Chairman, there have been several myths about U.S. and world production of feed grains. Please carefully study the following statements and charts:

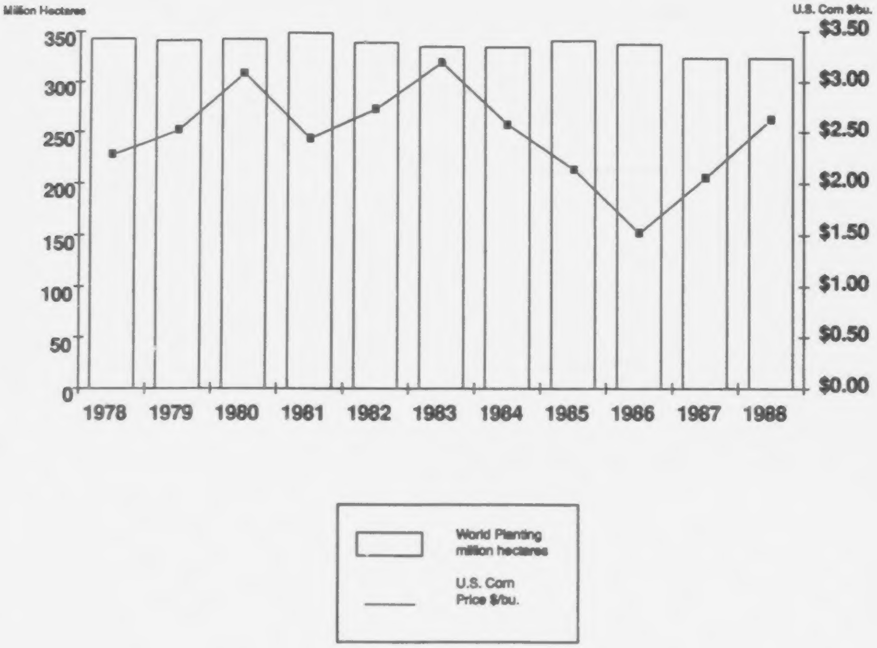
(1) The statement is often made that market clearing prices will increase the demand for feed grains. However, the fact is that lower prices have very little effect on total feed grain consumption. World coarse grain prices are set by the demand for the grain in relation to the current available supplies. U.S. farm prices are a reflection of world prices. The inelasticity of feed grain demand is very evident in Chart A. There is no significant increase in use as prices decline.

Chart A



(2) Another false or misleading statement is that high U.S. feed grain prices encourage increases in world planting. The facts, however, show there is very little change in world planting in response to prices. Chart B shows that the trend in planting is slightly downward. Yields, on the other hand, are trending slightly upward.

Chart B



U.S. Corn Prices and World Planting in Million Hectares

Mr. Chairman, it is our pleasure to present our views to the Committee on Agriculture. NGSPA looks forward to working with you in the development of the 1990 Farm Bill. Thank you for this opportunity.

Statement by Wayne A. Boutwell
President, National Council of Farmer Cooperatives
Before the
House Committee on Agriculture
Wednesday, July 12, 1989

Thank you, Mr. Chairman. My name is Wayne Boutwell and I serve as President of the National Council of Farmer Cooperatives on whose behalf I appear today.

The National Council of Farmer Cooperatives is a trade association representing 90 regional marketing and supply cooperatives, 32 State Councils and the banks of the Cooperative Farm Credit System. Our members in turn have over 5,000 local cooperatives with a combined membership of nearly two million individual farmers.

As debate begins on the 1990 farm bill there are a number of issues confronting agriculture that will have an impact on the farm and food system. These include food safety, LISA (low input sustainable agriculture), ground water, air quality and GATT to name just a few.

In considering these it is important to remember that one of the primary responsibilities of the federal government is to assure the citizens of this country with a safe, wholesome and dependable supply of food at reasonable prices. However because of our international leadership, this responsibility goes even beyond our borders to the world.

To meet this obligation our farm economy must be strong and economically viable. However, because of the environment in which farmers must operate this can not be achieved without a system to help offset extreme supply and demand imbalances that can result in wide swings in the farm sector. Such potential swings have been amplified in recent years as we have moved to a more global agricultural economy.

In many cases farmers must make production decisions a year or more in advance of harvest. Water is critical. Too much or too little can result in damage to or loss of a crop. Insects and disease are other hazards that can result in substantial losses in production as well.

There is also the fact that many crops are perishable and must be marketed within a relatively short period of time. Thus the price and per unit cost anticipated at the time production decisions are made can be drastically different from those actually realized.

In recognition of our overall food policy objectives and the inherent instability of production agriculture, farm programs have evolved over the years to provide some protection to farmers and corresponding benefits to consumers. These include income support, orderly marketing, production adjustment and inventory assistance programs as well as research, extension and conservation programs.

Looking at our food policy objectives, these programs have been successful. For example, U.S. citizens spend only 12 percent of their disposable income on food -- the lowest of any other nation -- and down from an average of 16 percent in the 1960's (Chart 1).

Much of this success can be attributed to the farm sector. To illustrate, the farm value of the food dollar was 40% back in the early 1960's compared with about 25% today (Chart 2). One of the reasons for this decline is increased productivity at the farm level which has helped minimize increases in food costs relative to other costs. Such productivity gains could not have been achieved without having a strong support system -- including research, education and extension -- in place to assist producers.

During the early 1980's, a combination of factors led to one of the worst downturns in the history of American agriculture. Recognizing the need to respond, Congress approved new legislation aimed at protecting farm income and allowing U.S. agriculture to compete more effectively in the domestic and international marketplace.

In this regard, I want to take this opportunity to commend you, Mr. Chairman, and this Committee for your leadership and efforts relating to passage of the 1985 Farm Bill. Not only was that legislation urgently needed in reponse to the downturn in the farm economy, but it has helped agriculture back on the road to economic recovery.

Net farm income is up (Chart 3), exports are up (Chart 4) and our share of the world market for many commodities is greatly improved (Chart 5). Reflecting this improved performance, farm asset values have stabilized and are beginning to rebound (Chart 6). As a result, both income to debt and debt/asset ratios (Chart 7) have also improved as farmers have been better able to service debt out of cash income.

At the same time, the cost of these programs has declined from a high of $26 billion in 1986 to an estimated $13 billion this year, and is projected to decline even further next year. In addition, such costs are well below what was projected at the time the 1985 Farm Bill was enacted.

Even so, some have criticized these costs as being excessive. Yet the facts don't support this argument. For example, the $26 billion expended in 1986 represented about 2.6% of the federal budget (Chart 8) which is slightly less than relative expenditures in 1963. Further, this year's cost of approximately $13 billion represents only about 1.2% of the budget which is below the average of 1.4% realized over the period from 1961 to the present.

In other words, this year only a little more than 1 cent of every federal dollar will go toward farm programs and helping assure consumers a dependable supply of food and fiber at reasonable prices. By any measure, today's farm programs are a bargain to taxpayers and consumers alike.

Looking ahead to 1990, we believe the basic objectives of the Farm Bill should be:

1. Maintain support for farm income;

2. Provide for orderly marketing;

3. Allow U.S. agriculture to compete effectively in the domestic and international marketplace; and

4. Allow U.S. producers more flexibiliy to better respond to market signals.

To achieve these objectives, we believe the current thrust and direction of the 1985 Farm Bill should be maintained. This would include maintaining existing income and price-support programs, including the marketing loan, as well as export-related programs such as EEP and Targeted Export Assistance (TEA).

The need to provide increased flexibility in order to allow producers to better respond to market signals has become more necessary in recent years. Unless addressed, many producers could be "locked in" to certain cropping patterns because of relative program benefits despite attractive prices for alternative crops.

The so-called "10-25" provisions contained in last year's drought bill attempted to address this issue as it relates to soybeans and sunflowers and should be maintained. Consideration should also be given to require the Secretary to utilize his existing authority allowing up to 10% of a producer's crop acreage base to be shifted among other crop acreage bases.

There are other options which may be considered such as the triple-base plan and a units support plan rather than an acreage based program. While we would support more flexibilty, we do so only in the context that they benefit producers of program crops without hurting producers of non-program crops.

The structure of any new program to provide additional flexibility also should be designed to assist in maintaining a balance between supply and demand at reasonable prices and not simply as a means to reduce support for farm income.

While further cuts may be imposed on agriculture under the budget process, it should be emphasized again that the costs of farm programs are below historical averages as a percentage of the federal budget and that further cuts could hamper our long-term ability to meet our overall food policy objective -- which is to assure the citizens of this country with a dependable, safe and wholesome supply of food at reasonable prices.

In summary, Mr. Chairman, we believe the 1985 Farm Bill has worked well and should be maintained as the basis for any new legislation in 1990. We do not suggest any major changes at this time beyond providing producers with additional flexibility to respond to market signals as outlined.

CHART 1

FOOD EXPENDITURES

AS PERCENT OF DISPOSABLE INCOME

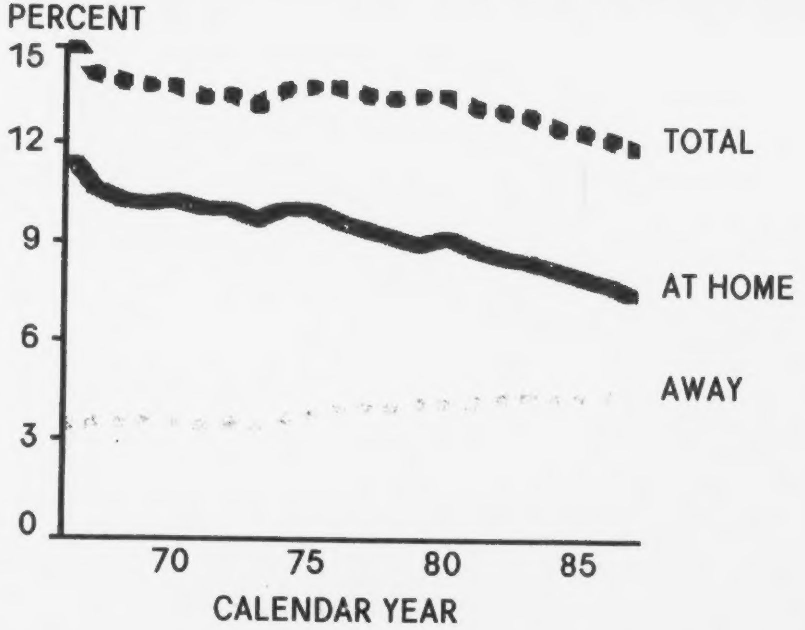


CHART 2

U. S. FOOD EXPENDITURES

FARM VALUE VERSUS MARKETING BILL

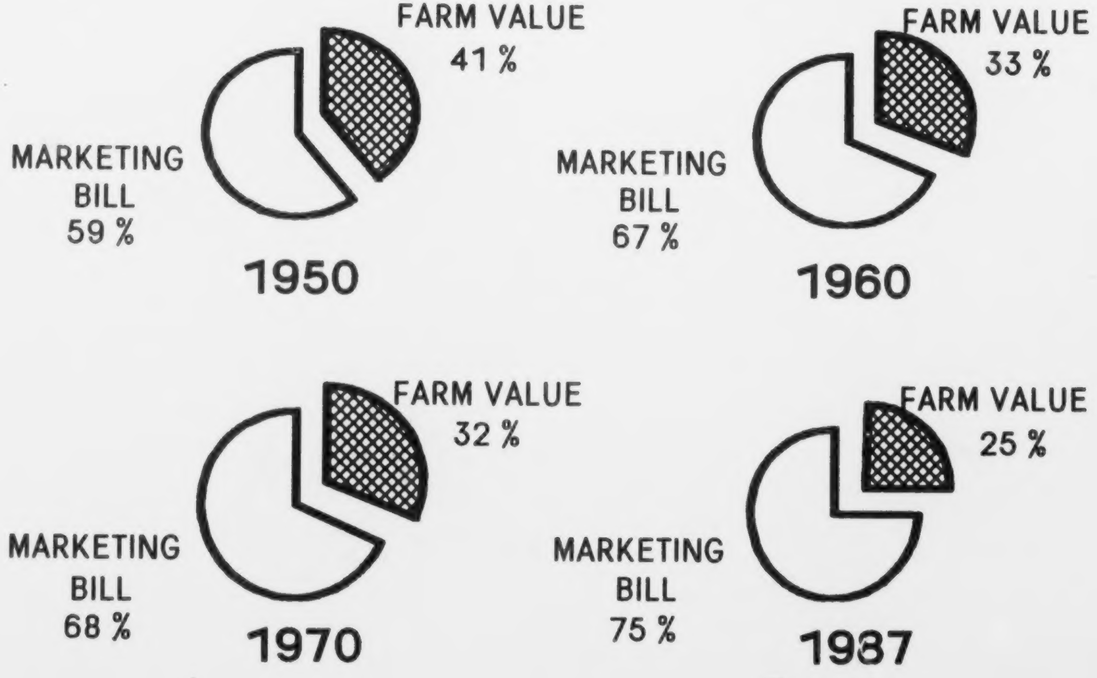


CHART 3

NET FARM INCOME

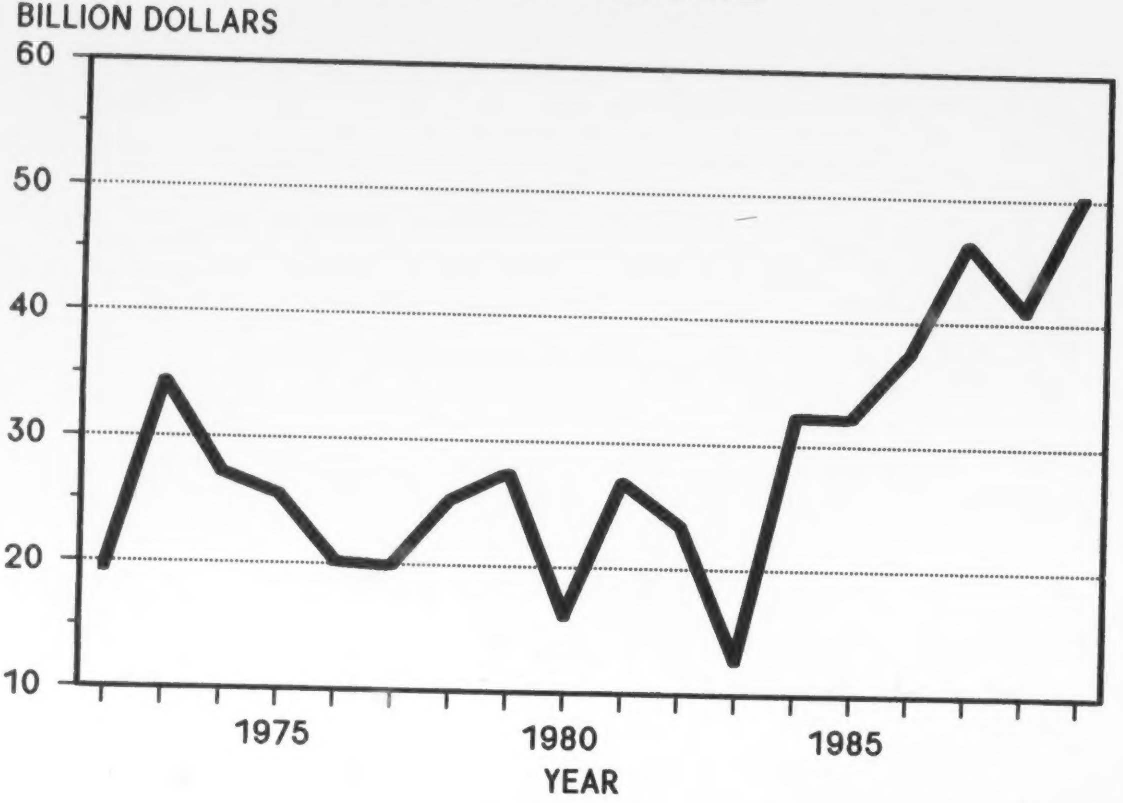


CHART 4

VALUE OF U.S. FARM EXPORTS AND AGRICULTURE TRADE BALANCE

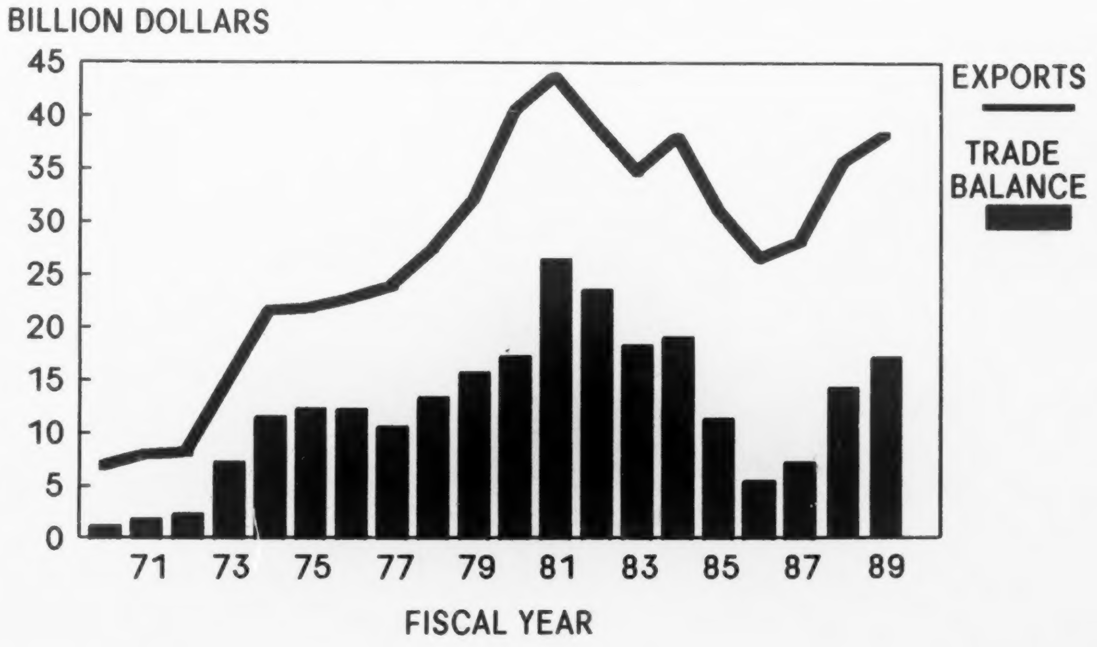


CHART 5

U.S. SHARE OF WORLD TRADE

	80/81	81/82	82/83	83/84	84/85	85/86	86/87	87/88	88/89
					Percent				
WHEAT	45	48	40	38	36	29	31	38	36
COARSE GRAINS	64	61	60	61	55	44	54	54	59
SOYBEANS AND PRODUCTS	56	60	57	50	41	49	47	49	38
COTTON	30	33	27	35	30	10	28	24	29
RICE	23	21	20	17	17	19	20	19	18

CHART 6

FARM ASSETS AND DEBT

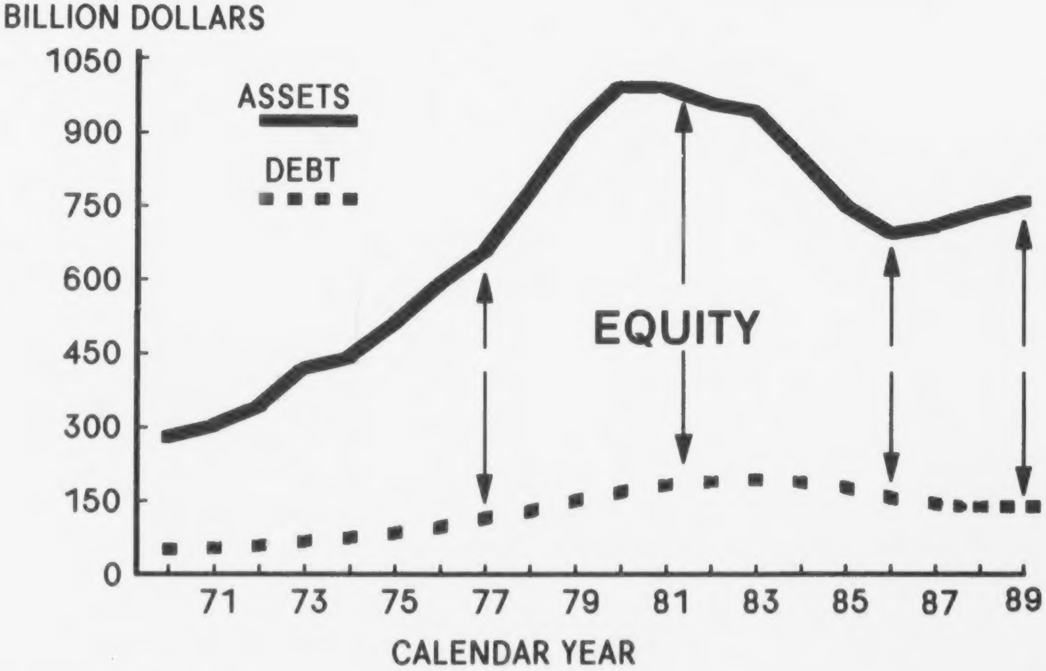


CHART 7

FARM FINANCIAL CONDITIONS

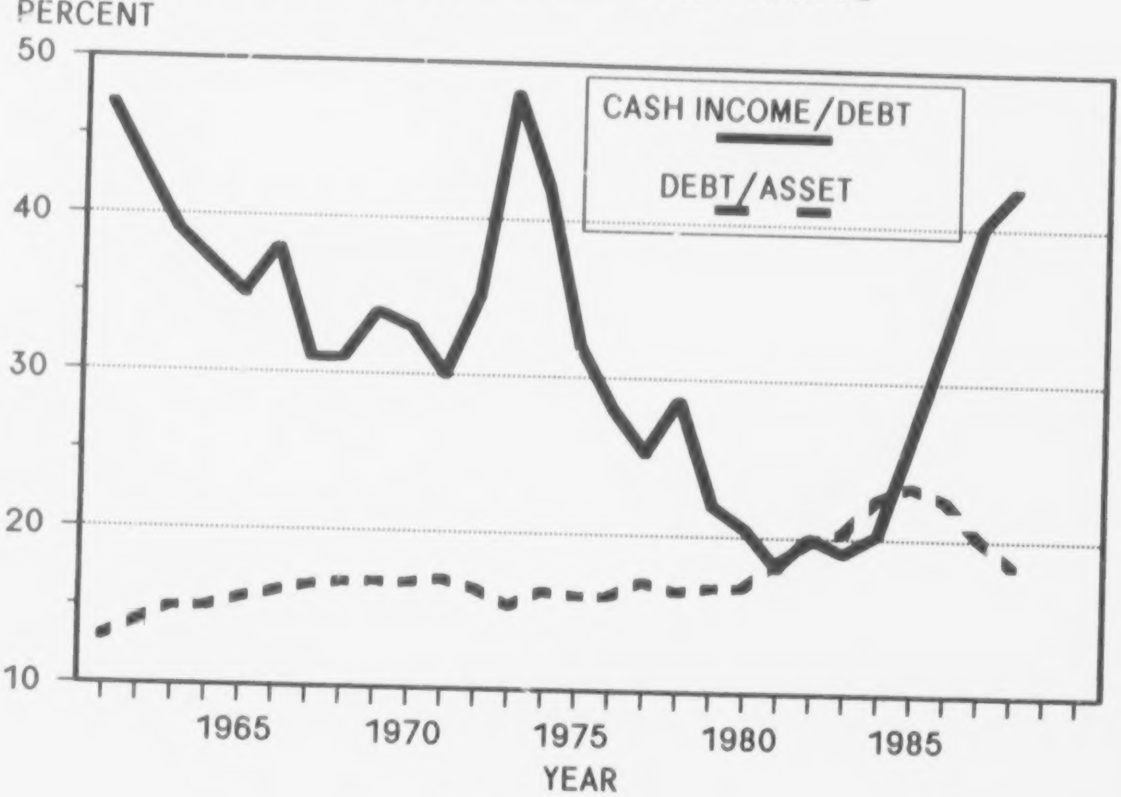
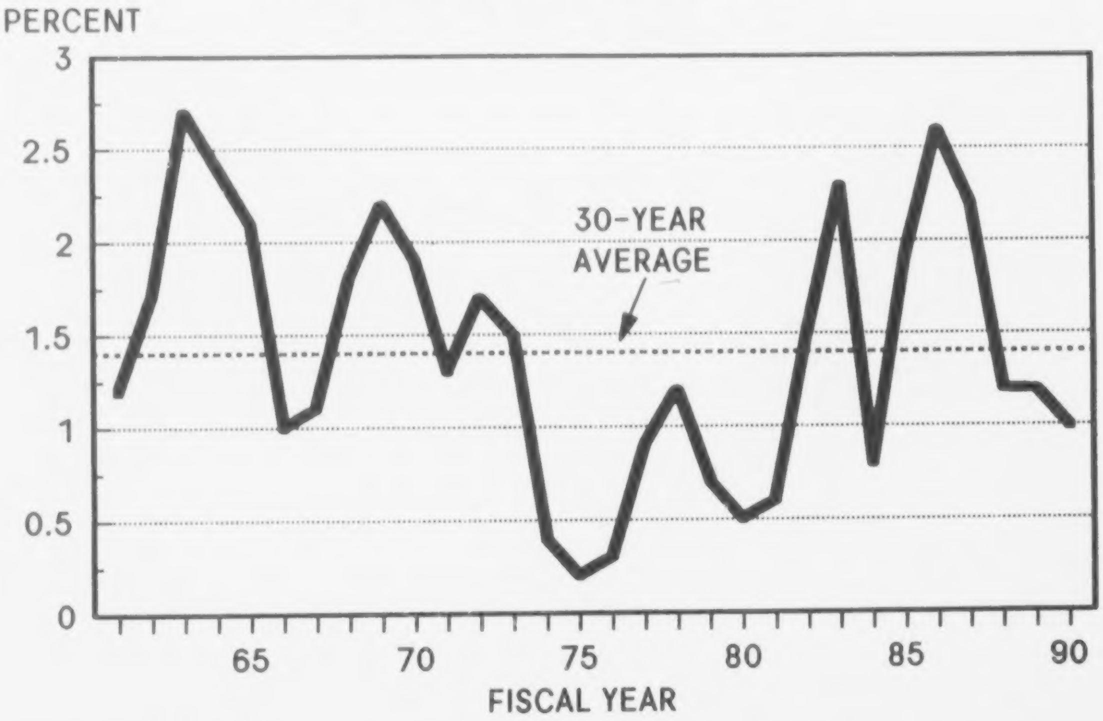


CHART 8

CCC OUTLAYS AS PERCENT OF FEDERAL OUTLAYS



Statement of

Carroll Brunthaver
President
Sparks Commodities, Inc.

Representing the
National Grain Trade Council

before the
Committee on Agriculture
United States House of Representatives

on the

1990 Farm Bill

July 12, 1989

Mr. Chairman and Members of the Committee:

It is a pleasure to have the opportunity to appear before you this afternoon to share with you the National Grain Trade Council's assessment of the 1985 Food Security Act and its recommendations for the 1990 farm bill. I am Carroll Brunthaver, president of Sparks Commodities, Inc., which is headquartered in Memphis, Tennessee. I am a member of the Executive Committee of the National Grain Trade Council.

The Council is a national trade association whose regular members include grain exchanges, boards of trade, and national grain marketing organizations. The Council has a number of associate members representing a large cross-section of the grain marketing industry.

Council members cover the full spectrum of the agricultural infrastructure. Our members include firms who handle bulk grains, the markets where the price risks associated with merchandising grain are hedged, transportation firms, and companies that process agricultural products into consumer-ready items we purchase on the grocery shelf. Council members and others in the food business, represent 17 of the 20 percent of the gross national product attributed to agriculture.

The agricultural infrastructure serving the United States is the most efficient and sophisticated in the world. This infrastructure can provide virtually any product, assuring the producer of receiving the highest competitive price possible, while providing consumers with the cheapest and safest food possible.

Council members want to see producers prosper and this goal can best be accomplished when demand for our products is growing. We want to foster an environment where all parts of the agriculture sector can work together to achieve this goal.

The 1985 Food Security Act

As the debate begins on the 1990 farm bill, much of the focus will be on the shortcomings of the 1985 Food Security Act (FSA) and how to refine that legislation into sound farm policy that can serve the nation's best interest over the long-term.

We commend you, Mr. Chairman, the Committee on Agriculture, and Congress as a whole for your many efforts in drafting the 1985 FSA. That Act was passed at a time when United States agriculture was in a depression. Farm land values fell at a startling pace, farm foreclosures and rural bank failures reached a record high, exports plummeted, U.S. market share suffered, the grain marketing system staggered under excess supplies, and we read about "a world awash in grain." It was not a pleasant time to be involved in agriculture.

A key problem facing agriculture at that time was competitiveness. Artificially high loan rates were pricing the United States out of world markets. Congress made a fundamental change with the 1985 FSA by reducing loan rates and target prices toward market-clearing levels. This change removed the artificial price floor on U.S. grains and, in combination with generic certificates and aggressive export programs, allowed this nation to again be competitive in world grain markets.

Aided by a cheaper U.S. dollar, a growing world economy, and an expanding U.S. economy, the turnaround in agriculture since the 1985 FSA has been dramatic. Agriculture exports in fiscal 1988 were $35.3 billion, up $9 billion from 1986. Export volume in 1989 is estimated to be thirty percent higher than 1986. Total farm debt has been reduced by over $50 billion since 1983. Net cash farm income was a record $58 billion in 1988.

Agriculture has prospered with the improved economy and renewed competitiveness. Today, with the successes of the 1985 farm bill, the United States finds itself in a different situation which merits different policy steps. Market demand has changed dramatically from a period of stagnation to a period of growth. U.S. policies must now adapt to this changing situation to position farmers to capture the growth in domestic and world demand.

The Current Environment

The world supply and demand situation for grains has rapidly changed from a period of burdensome stocks to a situation where world supplies of food and feed grains are the tightest they have been in 20 years. Last year's drought accelerated the tightening supply situation, but even without the drought, the downward trend would have continued and world stocks would have declined nearly 50 million tons. With these tight stocks, a production disruption of any crop anywhere in the world this year increases the potential for food shortages.

With this demand-driven environment, some flaws in the 1985 FSA have become very apparent: (1) current policies rely on supply management, (2) the rigidity of current programs denies many farmers the flexibility to take advantage of market opportunities, and (3) even when market opportunities are present, set-aside schemes required for budget reasons often preclude the United States from taking advantage of the situation.

It is very difficult in today's environment to justify continued reliance on acreage reduction programs (ARPs). Wheat presents a good example of this policy shortcoming. World wheat consumption has increased substantially in recent years and the United States was able to meet that demand with its ample stocks while at the same time limiting production. Those ample stocks are now gone -- some estimate the 1989/90 wheat carryout will fall to 451 million bushels, the lowest level since the late-1960's. Yet, world consumption continues to grow and the nation faces a situation where production, not demand, will limit wheat exports. In fact, U.S. exports are expected to fall by 15 percent in 1989 to 1.2 billion bushels from 1.44 billion in 1988 as production begins to ration export levels.

While many have attributed the rapid draw-down in wheat stocks to poor growing conditions in 1988, we should remember that an even larger factor was the 27.5 percent ARP. As we look at the prospects for the 1989 crop, it is evident that the crop will be reduced by poor growing conditions in Kansas and other parts of the central plains. The prospects for 1989 were initially estimated at 2.45 billion bushels and more current estimates are closer to 2.0 billion bushels.

The situation is a little different for soybeans and oats, where program rigidity has prevented U.S. farmers from responding to market signals. The problem of program rigidity is two-fold: crop-specific acreage bases prevent farmers from being able to shift from one crop to another without losing their eligibility for current and future program benefits; and the relationship among target prices for different crops has become distorted, resulting in relatively high subsidies for some and relatively low subsidies for others. This disparity among target prices encourages the obvious -- production of those crops that promise higher deficiency payments which overwhelm market signals for other crops.

Relatively strong market prices for soybeans, for example, have not brought about the increase in production which the market is signaling. Even when farmers could earn more from the marketplace by planting oilseeds, they continue raising wheat, feed grains, cotton or rice to protect or expand their acreage base. And to offset target prices available for these other crops, oilseed prices would have to rise to levels high enough to choke off demand.

However, price levels, along with U.S. policy actions, induce production elsewhere. Worldwide demand for vegetable oil and protein meal is strong and growing at the rate of four percent annually. But that demand is being met by competitor nations. Since 1979, U.S. oilseed production has fallen by more than a third. Perhaps the most tangible statistic is the acre-for-acre shift in the soybean industry from North America to South America. Between 1979 and 1988, U.S. soybean plantings declined by 12.5 million acres, while plantings in Brazil and Argentina rose by 12.5 million acres.

U.S. soybean processors have shut a number of plants because there are not enough U.S. soybeans to process. Meanwhile, foreign oils, including unprecedented shipments of European rapeseed and South American soyoil, have been used in the United States. Soybean imports themselves are a possibility.

Foreign oats already have become a staple in the United States. Despite oat prices reaching historic highs, U.S. farmers have found the program incentives for other crops better so they let 10-percent of their lands stand idle while they raise barley, corn or wheat. U.S. market demand has, in turn, been met by imports which have steadily increased. In 1980/81, the United States only imported 1 million bushels; in 1988/89, the nation imported 60 million bushels and potentially may have imported more had supplies been readily available.

For corn and cotton, the lack of planting flexibility coupled with cost restraints plays out a little differently with more subtle, but still serious results. Corn and cotton programs are attracting enough U.S. acreage that today's budget driven acreage controls may become a chronic necessity.

The problems posed by the rigidity of current programs and other production restraints must be addressed if the nation is to serve rejuvenated domestic and world demand. As program rigidity limits the production of some crops and stock levels for other crops fall to historically low levels, the United States faces a fundamental policy question -- does the nation intend to produce adequate supplies to meet growing world demand or will that demand be met by competitor nations?

Recommendations for the 1990 Farm Bill

As Congress develops a new farm bill, we urge that this effort be guided by one test: That it be the best long-term farm policy for agriculture and the nation.

The National Grain Trade Council recommends the following principles for a healthy and prosperous U.S. agriculture to guide future farm policy:

1. **Promote competitiveness in all of U.S. agriculture.**
2. **Provide farmers more freedom to make their own planting decisions and to rely on market signals which will enhance their competitive position in meeting world and domestic demand.**
3. **Ensure that U.S. policies contribute to real world demand growth.**

To achieve these goals, the Council recommends the following policy steps.

Program Rigidity

To provide farmers the freedom to make their own planting decisions and to rely on market signals which will enhance their competitive position in meeting world and domestic demand, the Council recommends either restructuring farm programs or moving to a modified Normal Crop Acreage approach.

We believe the best policy approach would be to restructure farm programs to break the link between program costs and crop production. Market signals can best guide a farmer's planting decisions; government programs should provide assistance that is not tied to current or future production levels.

A reasonable way to make the income support program neutral would be to substitute a payment relating to historic planting patterns in place of deficiency payments linked to current production. Farmers should have the assurance that they will receive a known, predictable payment regardless of what they plant.

These steps would allow farmers more freedom to make efficient production decisions and compete in world markets. This approach will also allow the nation to fully employ the comparative advantage it has in agriculture -- positioning itself to capture a larger share of a growing world market.

Another acceptable approach is a modified Normal Crop Acreage (NCA) which would represent an improvement in long-term policy compared to the commodity-specific rigidity found in current programs. We would envision a modified NCA with the following features:

1. A whole farm crop base, composed of the sum of the previous crop specific bases.

2. A target price structure much the same as now in place, but with deficiency payments based on a historical average, and the farmer allowed to plant the acreage as he wished. Farmers would have assurance they will receive their traditional income protection regardless of whether they produce a given crop.

   For example, assume producer Jones now has total crop land of 300 acres, which includes 100 acres of corn base, 100 acres of wheat base, and 100 acres that is planted to soybeans. With this NCA approach, he could have the freedom to plant any crop mix he wishes based on his analysis of market demand, but would continue to receive deficiency payments on the corn and wheat base as if he had planted his acreage consistent with his original base.

The Council believes this approach has a number of attributes: a farmer's planting decision would be independent of payments; the current bias to control production for budget, not market reasons, would be eased; payment levels could be as generous as the Federal budget would allow; income protection could vary, as it does now, in relation to market prices; and if burdensome stocks become a problem in future years, ARPs could still be used.

We believe either restructuring farm programs or a modified NCA approach would also help address environmental concerns. If income supports are not linked to production, then artificial incentives that encourage farmers to apply more fertilizer and agricultural chemicals or convert more land to production are removed and, in addition, sound crop rotation practices are encouraged. Production incentives would be based on expected returns from the marketplace, not prices set by the government.

Competitive Loan Rates

To maintain the competitiveness of U.S. agriculture over the long-term, it is essential to keep loan rates below market-clearing levels. Although market prices have been relatively strong in recent years, it is important not to lose sight of the need to keep loan rates below market-clearing levels and to continue working toward the formula set in the 1985 legislation. We would further recommend that loan floors be eliminated.

Adequate Supplies

Acreage reduction programs have become a tool to limit farm program costs, rather than a policy tool, and as such benefit the Office of Management and Budget more than U.S. agriculture. The results of this approach are difficult to defend. ARPs artificially increase per-unit production costs for U.S. farmers. Other nations expand their world market shares as they fill the void left by the United States. In the longer term, as annual ARPs reduce U.S. competitiveness, they increase U.S. crop producers' dependence on the government for income.

We believe ARPs have become an out-dated tool. If too many acres are in production in the United States, programs should be built upon more competitive, rational land retirement programs. For example, the conservation reserve program is expected to eventually idle about 40 million of the nation's most fragile crop acres. And the 0/92 program option gives U.S. farmers the choice of reducing production when it is in their economic interest -- not the federal government's.

Users/consumers of agricultural products need to be assured the United States will produce in response to market needs. U.S. agricultural policy must recognize it has a responsibility to be a dependable supplier to meet domestic and world demand. Traditionally, U.S. policy is viewed from a production perspective and the Council recommends that the role of market demand receive more emphasis.

Reserve Policies

The Council believes that reserve policies should be modified to provide more flexibility. We recommend that:

- Release levels for the Farmer-Owned Reserve (FOR) be eliminated. Farmers should be allowed to choose when reserve grains are marketed. Such a change in the FOR would prohibit the reserve from creating an artificially tight supply situation. Mechanisms should be added to the reserve to ensure that storage payments to farmers would cease at some price level.

- Resale prices for Commodity Credit Corporation grain stocks be set at more appropriate levels. The resale price for soybeans should be set at 105 percent of the effective loan rate, plus carrying charges; the resale price for wheat and feed grains should be set at 115 percent of the effective loan rate, plus carrying charges. CCC, when selling its stocks into the market, should do so in a manner that facilitates orderly marketing.

Export Subsidies

The Council is concerned that export subsidies become institutionalized over the long-term. We would oppose that. We recognize the Export Enhancement Program (EEP) is seen as playing a critical role in restoring the competitiveness of U.S. wheat in world markets. While EEP may be valuable in the future to make the United States competitive in world markets, we believe the greatest value for this program at this stage is as a tool for negotiations with the European Community.

In light of a fundamentally different world supply and demand situation, we recommend EEP be revised to: (1) maximize the benefits to U.S. agriculture; (2) consistently maintain the competitiveness of U.S. products; and (3) not restrict sales or force them to be made in the near-term. We further recommend that EEP generally be streamlined to reflect market operations more closely and to reduce the government's day-to-day control over the marketplace.

Trade Barriers

For U.S. agriculture to be competitive in world markets, it is also essential to work toward a world-wide reduction in trade barriers. We support the Administration's effort in the General Agreement on Tariffs and Trade to achieve this goal.

Farm Program Analysis

The Council also recommends that the impact of farm programs be analyzed thoroughly. We believe the Department of Agriculture should prepare an Impact Statement for each crop program that would include the estimated impact on farm income, production, farm suppliers, rural communities, food prices, and the gross national product for each program option under consideration. The Impact Statement, in addition, should analyze the affect of program changes on other crops. A zero acreage reduction program should always be one option.

Summary

Mr. Chairman, the Council believes the 1985 Food Security Act recognized the importance of competitiveness in world markets. We should now refine our policies to help us achieve this goal. We believe that growing world demand calls for less reliance on acreage reduction programs and greater planting flexibility. We believe our recommendations would position U.S. producers to meet growing domestic and world demand.

TESTIMONY OF

JAMES P. (TOM) CAMERLO
PRESIDENT
NATIONAL MILK PRODUCERS FEDERATION

BEFORE THE

HOUSE COMMITTEE ON AGRICULTURE
JULY 12, 1989

Mr. Chairman, I am James P. Camerlo, a dairy farmer and President of the National Milk Producers Federation. I am also President of Western Dairymen Cooperative, a dairy cooperative marketing association headquartered near Denver, Colorado.

The National Milk Producers Federation is the national farm commodity organization which represents dairy farmers and the dairy cooperative marketing associations they own and operate throughout the United States.

The bulk of the nation's milk supply is marketed through dairy cooperative marketing associations that farmers have developed to represent them in the market. The marketing activities of these associations range from bargaining for price and other conditions of sale of bulk fluid milk to the production of finished dairy products and the distribution and retail sale of such products to consumers. Virtually every dairy product that is produced in any substantial quantity in the United States is included in the product mix of the cooperatives represented by the Federation.

The Federation provides the vehicle through which dairy farmers and their cooperative marketing associations formulate policy on national issues which affect their ability to produce and market milk and dairy products. The Federation and its membership seek to establish conditions under which farmers can join together to market their products in stable markets at prices which are reasonable both to producers and consumers.

Since its founding in 1916, the Federation has worked with the Congress and the executive agencies in the United States to secure the adoption of laws and the implementation of policies to further these basic goals.

NMPF's policies are established by our members on a basis which assures participation from across the nation. The policy views advocated by the Federation are, therefore, the only nationwide expression of dairy farmers and their cooperatives on national public policy.

I appreciate this opportunity to provide the Committee with the views and concerns of our members on several important agricultural policy issues which you will address in the coming months as the debate unfolds on the 1990 farm bill.

As you begin to formulate positions on the future direction of the nation's farm policy, this hearing is useful in assessing the impact of past policies and in identifying the issues which must be dealt with in the next omnibus farm bill.

Today, I would like to briefly examine the major federal programs affecting the nation's dairy farmers in order to provide the Committee with a sense of the state of the dairy industry today and the challenges we see for the future.

To sensibly address the dairy policy options for the future, it is vitally important that we all understand the industry's current conditions and the potential problems which federal policy can adequately address.

I am pleased to report that the dairy industry enters the farm bill debate in a vastly different position than it was in at this point in the formulation of the 1985 farm bill. Gone are the burgeoning surpluses of dairy products purchased under the dairy price support program. Gone also is the $2 billion-plus pricetag of the dairy program.

In fact, U.S. milk production and consumption are in such close balance that very little cheese and no nonfat dry milk -- two of the three products purchased under the dairy program -- have been removed from the market by USDA this year. Dairy program costs this year are expected to total about $670 million. That's a far cry from the $2.1 billion cost of dairy purchases in fiscal year 1985.

I'd like Members to take a look at the tables attached to my statement. They graphically demonstrate what's happened to the dairy program portion of the Commodity Credit Corporation budget during the last few years.

In addition to a drastic reduction in total costs, the dairy program's share of total CCC outlays has also fallen by one-third. Thus, dairy farmers have made a major contribution to reducing agricultural spending. These reductions have helped cut the cost of agricultural stabilization programs from 2.68 percent of the total federal budget in fiscal year 1986 to just over one percent of total federal spending today.

As budget-cutters continue their assault on agricultural programs, it is critically important that everyone involved in the nation's farm policy debate -- from members of this Committee to those of us working with you on these issues -- remember that farm programs have shouldered an inordinate amount of the burden of deficit reduction. Fairness, equity and the need for a sound national agricultural policy require that the 1990 farm bill not be solely budget-driven.

Our goal for the 1990 farm bill is to establish a dairy program which enables the industry to maintain a supply-demand balance, thereby fostering the market stability which is the cornerstone of the dairy price support program.

Dairy Price Support Program

The dairy price support program, which was established by the Agricultural Act of 1949, as amended, is the most fundamental of the public policies responsible for the economic well being of dairy farmers and their cooperatives in the U.S. This program is chiefly responsible for assuring the nation an adequate supply of pure and wholesome milk and dairy products at reasonable prices. It does so by stabilizing farm prices for milk at approximately the price support level established by the U.S. Congress.

The dairy price support program is arguably the simplest type of public policy conceivable for achieving price stability on a national level for a major agricultural commodity. Under the program, the federal government stands ready to purchase dairy products -- butter, cheese and nonfat dry milk -- at prices which should allow dairy product manufacturers to pay dairy farmers the support price for milk used to manufacture these products, after deducting their manufacturing costs. This places a floor, or support, under the price of milk during times when production in the short run is in excess of available demand.

It also provides the government with a buffer stock of dairy products that can be resold in commercial channels during periods when demand temporarily exceeds supply, and which can be sold at concessional prices or donated under various domestic and foreign food assistance programs.

The dairy price support program thus is an excellent vehicle for achieving price stability, on both the low and the high sides. This serves the interests of both producers and consumers, particularly when it is considered that the perishable nature of milk and dairy products -- together with the uneven, and unmatching, patterns of milk production and consumption -- give the dairy industry a natural tendency to instability in production and pricing in the absence of such a program.

The price support program is also an efficient means for procuring and distributing dairy products for food assistance programs which the Congress decides are in the public interest.

The basic purpose of the dairy price support program is to assure the public an adequate supply of pure and wholesome milk for domestic consumption. The program should also encourage growth in the consumption of milk and dairy products.

The primary dairy policy challenge at the national level during the first half of the 1980s was how to reduce excess production of milk in a manner both effective and fair to all segments of the nation's dairy industry, to accomplish the goal of reducing the taxpayer cost of the dairy price support program.

Food Security Act of 1985

The Food Security Act of 1985 addressed this situation by means of a **Dairy Termination Program** (DTP), or whole-herd buyout. Under the program, 1.54 million dairy cows, heifers and calves were contracted by dairy farmers to be sold for slaughter or export during an 18 month period. The dairy farms from which they were removed were contractually obligated to remain out of milk production for a minimum of five years. This program removed almost 10 percent of the nation's milk-producing resources.

The Dairy Termination Program was successful in bringing milk production back in line with commercial use of milk and dairy products. During the height of the program, between the summer of 1986 and the summer of 1987, milk production in the U.S. was significantly below year-earlier levels. Meanwhile, growth in commercial demand continued at the healthy rates it has shown for the past several years.

As discussed previously, the quantities of dairy products purchased by the Commodity Credit Corporation (CCC) under the price support program, an important indicator of the supply-demand situation in the dairy industry, dropped substantially from the levels experienced before the 1985 farm bill and will remain at a healthy and manageable range through the end of the current farm law.

Future Policy Considerations

As we look to the future, our goal is to build on the past. Over the last few years, the dairy industry has examined numerous policy options aimed at assuring market price stability in the interest of consumers and producers, within a reasonable CCC budgetary level. This examination is continuing within the National Milk Producers Federation as we finalize our policy recommendations for the 1990 farm bill.

Next week, our 135 member Board of Directors will meet here in Washington to continue our efforts in developing the Federation's policy position for the 1990 farm bill. Many of you will be meeting with our Board members in individual meetings or at our Congressional reception next Tuesday night. During the Board meeting, our members will be discussing farm bill recommendations which have been developed by a task force we appointed to examine alternative policies.

While it would be premature to describe the task force's recommendations at this time, I can say that the group recommends building on the report of the National Commission on Dairy Policy, the panel which was established by this committee in the 1985 farm bill to make recommendations on future national dairy policy.

I was fortunate to be a member of the National Commission. I want to tell you it was a privilege and an honor to work with 17 other dairy farmers from throughout the country in addressing some of the many challenges facing this industry.

The Dairy Policy Commission agreed that U.S. agricultural and dairy policy should foster an economic environment in which milk producers have the opportunity to receive a satisfactory return for their labor and investment. An environment, in other words, that makes profitability possible -- but not guaranteed -- for the nation's milk producers.

The Commission clearly stated its belief that market forces, together with adjustments in the government support price, should be used to balance supply and demand for milk and dairy products. The Commission recommended the use of production controls on a standby basis, to be used in lieu of major price reductions that would otherwise be needed to balance supply and demand.

The Commission's recommendations on milk price support policy are very similar to the Federation's existing policy recommendations. NMPF supports a federal dairy program which will stabilize prices, but only to the degree that in the long run market prices are allowed to adjust the resources in milk production to the demand for milk and dairy products. Federation policy also supports standby authority for the use of a producer incentive/penalty program when substantial adjustments in supplies are necessary.

It is our longstanding policy that the support program is vital to undergird producer prices but not to be the price over an extended period of time. To ensure equitable returns to dairy farmers over the long term it is necessary to achieve a near balance of supply and demand.

These principles provide a basis with which to examine various proposed adjustments to the current program and a benchmark to look toward the program's future.

Dairy Program's Goal is Supply-Demand Balance

Between 1949, when the current dairy price support program was first established, and 1981, the support price for milk was established using the general parity standard. Although this standard worked quite well for about thirty years, by the beginning of the 1980s it was apparent that the general parity standard had lost most of its relevance as a pricing standard for the dairy industry.

The period from the beginning of the 1980s to the present has been a period of readjustment to a supply-demand balance for the dairy industry, using a combination of Congressionally-established price support levels for milk, milk marketing assessments, and temporary supply management programs, specifically the Milk Diversion Program of 1984-85 and the aforementioned Dairy Termination Program of 1986-87. As a result of these adjustment measures, overall supply-demand balance has been reestablished in the dairy industry.

But current U.S. dairy policy doesn't recognize this balance. The pricing standard which has governed the well being of dairy farmers since the 1985 farm bill is what could be termed a "pure supply-demand standard." This is the five billion pound, milk equivalent, standard against which government purchases of dairy products have been measured to determine whether or not the support price will be lowered by 50 cents each year. There are a number of reasons why this pure supply-demand standard is not a good pricing standard for our industry.

A major problem with a pure supply-demand standard is the inherent arbitrariness of the particular standard used to measure whether the industry is in balance. The dairy industry in the United States has grown considerably since the five billion pound standard was first incorporated into law in 1983. The rigid five billion pound standard is a smaller percentage of total production and consumption each year.

Current Trigger Shorts Food Assistance Programs

There is no guarantee that this level of government purchases is adequate for the purpose of price stabilization or for providing an adequate quantity of dairy products for food assistance programs deemed to be in the public interest.

This latter concern has been clearly demonstrated during the last two years. Due to the dearth of cheese and nonfat dry milk stocks, USDA has cut back drastically on dairy product donations under the Temporary Emergency Feed Assistance Program (TEFAP) and on bonus dairy commodities for schools under the school lunch program.

Moreover, the five billion pound trigger is a poor measure of supply-demand balance in the U.S. dairy industry, as we saw in 1988 and are seeing again this year. CCC purchases have been running at about 9.0 billion pounds milk equivalent, calculated on a fat solids basis, but cheese and nonfat dry milk markets have been extremely tight.

Butterfat-based Trigger Is Poor Measure of CCC Purchases

We are very concerned about the Department of Agriculture's method of calculating the milk equivalent of dairy products purchased by the CCC in administering the milk price support program. This issue is important because Congress has tied adjustments in the support price to the level of dairy purchases under the price support program. If USDA projects purchases in excess of the five billion pounds milk equivalent on January 1, 1990, the Secretary of Agriculture will cut the support price by 50 cents per hundredweight.

USDA currently uses a milkfat basis to convert dairy product purchases to a total milk equivalent. The particular method used for this conversion may not have been especially relevant during periods when the industry was in an overall surplus condition. But it is extremely important now when the industry is in a supply-demand balance for milk solids and is faced with a market excess of only one product: milkfat.

As a result, CCC purchases essentially consist of butter only, which has a high milk equivalent when calculated on a milkfat basis. Under USDA's forecast of expected CCC dairy product purchases during calendar year 1989, those purchases would amount to 8.5 to 9.0 billion pounds, milk equivalent when calculated on a milkfat basis. But the same purchases total only 1.3 billion pounds, calculated on a milk solids-not-fat basis.

Perhaps the most accurate way to measure CCC purchases is to weight them on a total milk solids basis, which reflects the relative proportion in which the components of milk naturally occur in whole farm-produced milk. Using this method, USDA's forecast of CCC purchases amounts to 3 billion pounds, milk equivalent for this year.

These differences are obviously critical. Under USDA's current method of calculation, the Secretary is likely to cut the support price at the end of this year even though the industry is in an overall supply-demand balance and markets for cheese and nonfat dry milk are tight. Unfortunately, such a cut will lead to greater market instability and income losses to producers despite this overall balanced market situation.

Clearly, the milkfat basis for the milk equivalent calculation is a poor measure of CCC purchases. Calculating the milk equivalent on a total milk solids basis would give a much more accurate picture of the overall supply-demand situation in the dairy industry, enabling the dairy price support program to be administered in a manner fully consistent with the intent of Congress and the stabilization objective of the program.

Federal Milk Marketing Orders

A second area of federal agricultural policy important to dairy farmers is the Federal Milk Marketing Order Program. The program is important to facilitate the marketing of milk, a commodity plagued with inherent instability, both physically and economically, due to its bulky, perishable nature, the seasonal nature of its production and the varying patterns of its demand.

The milk marketing orders promote orderly marketing of milk by applying a classified price system, which places milk used in fluid products in a higher price class and milk used in various manufactured products in lower classes. The orders establish minimum prices for milk in each use class to reflect local and general economic conditions affecting supply and demand for milk so as to assure an adequate supply of fresh, wholesome milk for beverage purposes and allow for the orderly disposition of milk in excess of such needs.

The order program eliminates the ruinous competition for milk markets by providing for a uniform or "blend" price to all producers who supply a given market. It provides accurate and detailed market information on the purchase and sale of milk in all Federal milk marketing areas. It has assured consumers an adequate supply of pure and wholesome milk for fluid use at reasonable prices.

We support the basic federal legislation authorizing the Federal Milk Marketing Order Program, which facilitates the orderly marketing of milk.

During 1988, both the U.S. General Accounting Office and the USDA released reports on the Federal milk marketing orders. In its report, GAO recommended several options regarding Federal milk orders. None of these options is new. Most have already been proposed and analyzed by industry, consumer and government organizations.

One, eliminating down allocation and compensatory payments with respect to reconstituted milk, was proposed in 1979. Following a detailed analysis, USDA concluded that such changes would be inconsistent with the intent of the law authorizing milk orders. The key points made in denying the 1979 petition were:

(1) Adoption of the reconstituted milk proposal would make meaningless the classified pricing of milk and thus thwart the intent of Congress.

(2) The proposal would result in negligible benefits to consumers, but would substantially reduce returns to dairy farmers. It was estimated that total consumer expenditures could decline by $186 million annually, that government purchases would decline by $165 million, and that dairy farmers' revenues would drop by $520 million, with the latter impact having a multiplier effect in terms of the economic loss to rural communities.

Other options studied by GAO, including eliminating Class I differentials (and consequently classified pricing), eliminating Federal milk orders completely, and eliminating pricing provisions in Federal orders while retaining order supervision, would eliminate provisions specifically authorized by Congress. Such changes would require new legislation by Congress.

The USDA report examined potential effects of modifying the Federal milk order system. The four modifications analyzed were:

(1) Changing the regulation of manufactured dairy products used to make reconstituted dairy products;

(2) Establishing a single nationwide milk order;

(3) Eliminating classified pricing;

(4) Using multiple price-basing points rather than the current single Wisconsin price-basing point.

The USDA analysis indicated that none of the modifications would increase producer revenues at the national level, although most would redistribute producer revenues among regions. The report found that elimination of the classified pricing system would drop prices farmers receive for Grade A milk by $.92 per cwt. and cut dairy farmer gross incomes by 11 percent, or $1.7 billion.

Because of the potential income loss to the nation's dairy farmers, we oppose legislation that would mandate the merger of federal milk marketing orders on either a national or regional basis. Our policy is to pursue modifications of federal order provisions to provide for continued equitable treatment of producers and other segments of the dairy industry.

GATT Negotiations

An issue which will undoubtedly have a major impact on the future of the nation's agricultural policy is the current round of international trade negotiation under the auspices of the General Agreement on Tariffs and Trade. The GATT talks are a major issue of concern to the nation's dairy farmers. We view it as critically important that this Committee and the Congress maintain its role in the establishment of U.S. agricultural policy. Our farm programs must be written here in the United States, not in Geneva, Switzerland.

The general objective of the agricultural negotiations in the Uruguay round is to achieve "substantial progressive reductions in agricultural support and protection ... resulting in correcting and preventing restrictions and distortions in world agricultural markets." In the negotiations, the U.S. administration has made abundantly clear its belief that attaining this objective would require the eventual elimination of the major types of agricultural programs under which the U.S. and virtually all other countries have operated to date.

The U.S. dairy industry supports the general objective of market stabilization, but has always recognized the essential role of stabilization programs in achieving this objective. Accordingly, U.S. dairy farmers and their marketing cooperatives seriously question the desirability of completely eliminating agricultural stabilization programs.

Agricultural sectors as a general rule have a structural predisposition to economic instability, characterized by tendencies toward overproduction, low and unstable prices, and the associated social losses. This situation stems in large part from the biological nature of agricultural production and the basic inability of farmers collectively to adjust their production to market demand with anywhere near the degree of supply control possessed by large industrial enterprises.

U.S. agricultural policy, accordingly, is based upon strong market stabilization programs at the Federal level. This is especially true in the dairy industry, where the bulky, highly perishable nature of milk makes the industry acutely prone to instability.

The objectives of U.S. dairy policies are to ensure an adequate supply of milk for domestic purposes. The industry, accordingly, has an almost exclusively domestic focus, which is mirrored in the orientation of the dairy industries of many other countries.

The primary reason why dairy farmers in the United States are apprehensive about the agricultural negotiations is that they do not believe that the goal of eliminating all agricultural programs is consistent with the goal of ameliorating structural instability inherent in the dairy industry.

In addition, U.S. dairy farmers have serious concerns that any agreement in agriculture could be truly fair on a multilateral, multicommodity basis. The dairy programs of benefit to them, the domestic price support program, the Federal milk marketing order program, and the dairy import quotas imposed under the authority of section 22, are all highly visible policies. As such, they are high-profile targets for other country negotiators, while more hidden subsidies used by other nations are much more difficult to detect, measure and bring under negotiation.

We view the dairy import quotas imposed under the authority of section 22 as essential to prevent these domestic stabilization policies from being undermined and rendered ineffective by the distortions inherent in the international dairy market.

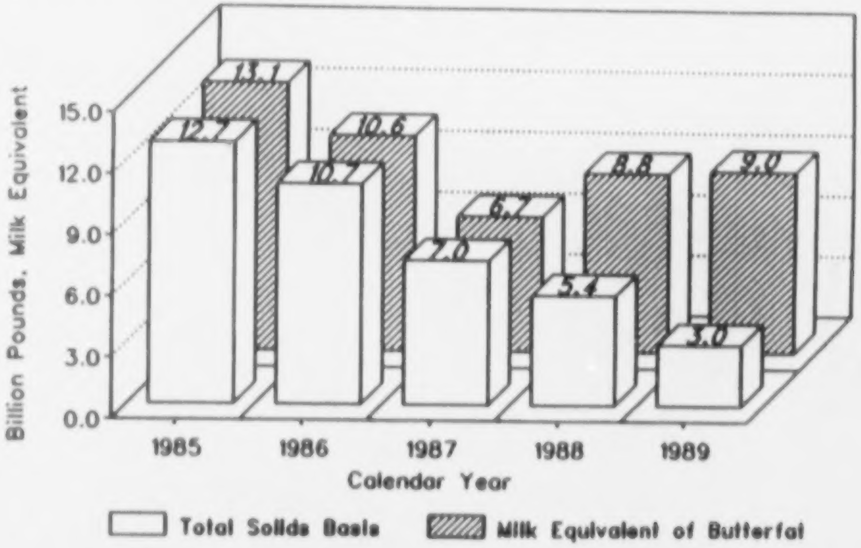
Furthermore, the National Milk Producers Federation opposes any modification to the waiver for section 22 approved by the Contracting Parties to the GATT. The Federation will oppose any action that allows greater access to U.S. milk and dairy product markets by other nations.

Finally, let me add that we believe negotiations should be truly multilateral and multicommodity. Trade-offs of concessions in one commodity in one country for those of another commodity in another country tend to exacerbate distortions in agricultural trade, not reduce them. These request and offer negotiations simply reinforce the underlying distortions in international trade.

My comments today are intended to give members of the Committee a sense of the major policy concerns of the National Milk Producers Federation as we approach the deliberations on the 1990 farm bill. As we continue to refine our policy recommendations for the farm bill we look forward to discussing them further with the committee. Again, I appreciate this opportunity to appear before the Committee today and I will be happy to respond to any questions.

CCC NET REMOVALS, 1985–1989

Calculated on Milk Equivalents of Butterfat and Total Solids



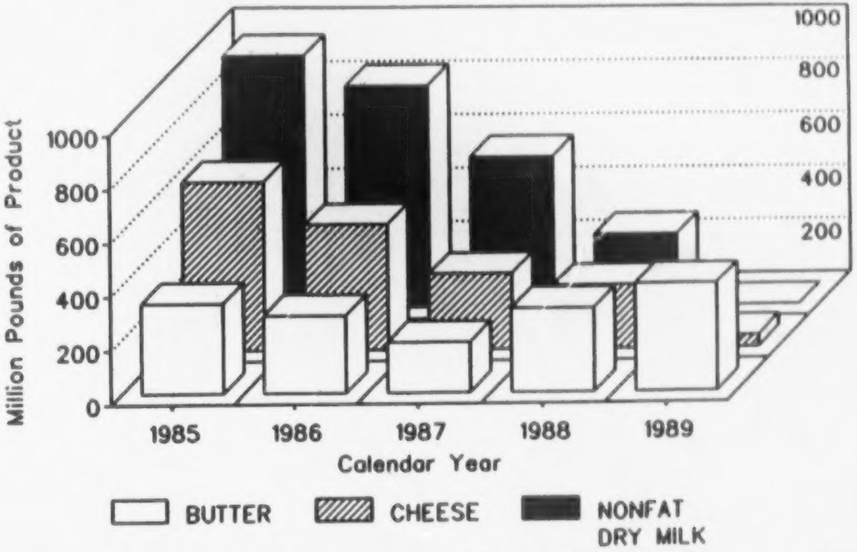
SOURCE: Agricultural Stabilization and Conservation Service, USDA, and NMPF.

1) CCC NET REMOVALS, 85-89
Milk Equivalents of Butterfat

This bar graph illustrates that while total CCC purchases have fallen dramatically, farmers are still facing another price cut. However, the CCC reserve of dairy products based on the total solids in milk is very low estimated at less than 3 billion pounds for all of 1989.

CCC NET REMOVALS, 1985–1989

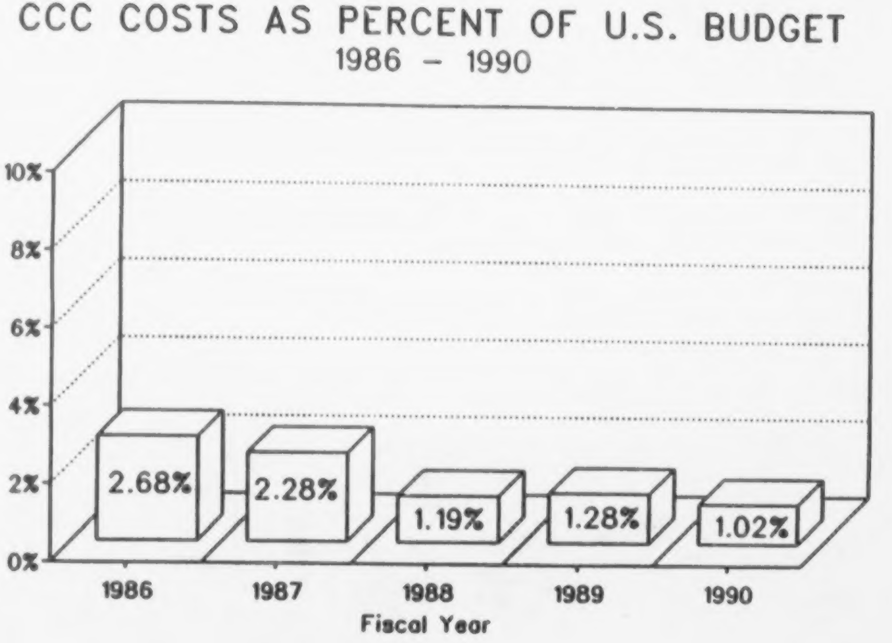
BUTTER, CHEESE, AND NONFAT DRY MILK, IN POUNDS



SOURCE: Agricultural Stabilization and Conservation Service, USDA, and NMPF.

2) CCC NET REMOVALS, 85-89
Butter, Cheese, NFDM

This graph itemizes the three levels of CCC dairy product purchases, and again illustrates that the CCC is not expected to buy any Nonfat Dry Milk in 1989, and very little cheese. However, because butter is 80% butterfat, and the CCC is still buying butter, net removals on the USDA butterfat basis appear significant.

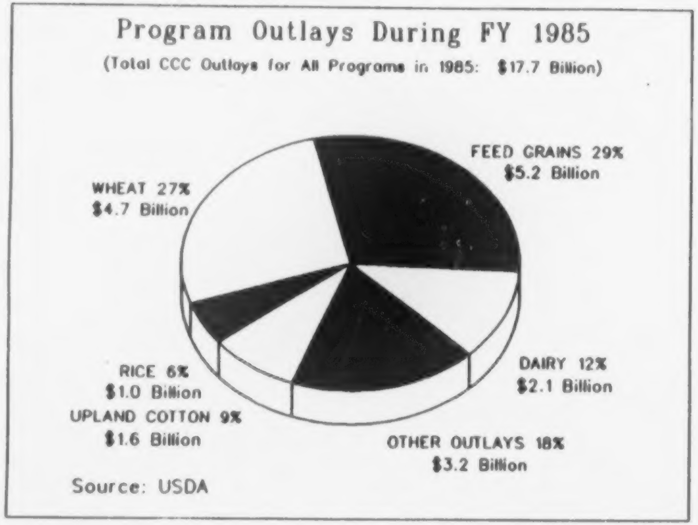


SOURCE: USDA Department of Agriculture

File: CCCUS

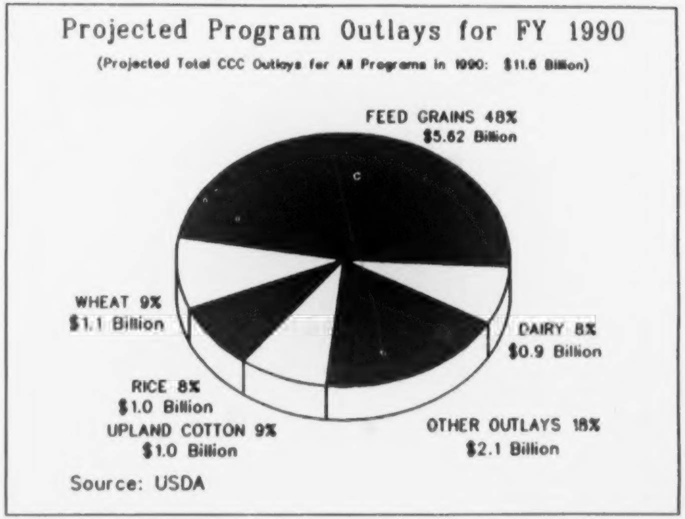
3) CCC COSTS AS A PERCENT OF U.S. BUDGET

This bar graph demonstrates how the total cost of agricultural stabilization programs have dropped steadily. In 1990, total CCC outlays will be less than half of the 1986 level in volume, and as a percentage of the US budget. While the total US budget has steadily expanded over this time, agricultural programs have been left at the wayside.


Program Outlays During FY 1985

(Total CCC Outlays for All Programs in 1985: $17.7 Billion)

Source: USDA


Projected Program Outlays for FY 1990

(Projected Total CCC Outlays for All Programs in 1990: $11.6 Billion)

Source: USDA

4) CCC PROGRAM OUTLAYS, 1985 and 1990

These pie charts show the low cost of the dairy price support program compared to other agricultural stabilization programs. From FY 1985 to FY 1990 (USDA est.) dairy costs are shown dropping dramatically in both real and percentage terms. During this period, the dairy program share of the CCC budget fell by one-third. FY 90 program costs are projected at less than 8% of total CCC outlays, while **dairying generates more cash receipts in the marketplace than all feedgrain marketings combined.**

NATIONAL CATTLEMEN'S ASSOCIATION
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TESTIMONY

on behalf of

NATIONAL CATTLEMEN'S ASSOCIATION

before the

U.S. House of Representatives
Agriculture Committee

July 12, 1989

on

The 1990 Farm Bill

by

Dan Koons
Chairman
NCA Agriculture Policy Committee

- -

The National Cattlemen's Association is the national spokesman for all segments of the beef cattle industry--including cattle breeders, producers and feeders. The NCA represents approximately 240,000 cattlemen. Membership includes individual members as well as 47 affiliated state cattle associations and 26 national breed associations.

July 12, 1989

Mr. Chairman, my name is Dan Koons, and I represent the National Cattlemen's Association as Chairman of the Agriculture Policy Committee. I am a cattle and grain farmer from central Illinois and a constituent of Representative Edward Madigan, the distinguished ranking member of the Committee.

The $35 billion cattle industry is the largest segment of American agriculture according to cash receipts. In 23 states, it is either the number one or two commodity in cash receipts. Throughout the history of the U.S., the American Beef Industry has played an integral role in the country's well being. That is still the case today.

Five years ago, the cattle industry, through NCA, became a participant in the formulation of the 1985 farm bill. Even though NCA was a new player, we emersed ourselves in various issues. I would like to outline some of the issues that were important to NCA.

- Feedgrains: Market oriented grain policy was perhaps the most important policy change for the cattle industry in the 1985 Act. Buying grain based on world market prices allowed cattlemen to timely gauge production costs based on supply and demand factors.
- Beef Promotion: The beef check-off program has helped the cattle industry tell the story of how nutrient-dense beef benefits the diet, as well as bolster demand. The check-off was approved by an overwhelming majority of cattlemen and we in the industry thank Congress for giving us the opportunity to prove the merits of the check-off. In fact, on June 27, the Beef industry recently reached its first 1000th day of the check-off and are pleased with the results of programs administered under the Act.
- Conservation Reserve: The prohibition of haying and grazing on CRP land during the term of the contract was a wise and prudent decision. With over 30 million acres now enrolled in the CRP, it is easy to see the dramatic effect haying and grazing would have had if allowed.
- Haying and Grazing: A new haying and grazing law was passed for annual set-aside acres in 1987 because of an oversight in the 1985 Act. The new law is a fair compromise that recognizes regional differences. We hope this new law will end the contentious debate on haying and grazing.
- Dairy: The Dairy Termination Program was a disaster for the cattle industry. Mismanagement by USDA and the hasty manner in which the DTP was developed is well documented. NCA strongly believes DTP type programs are counter-productive and must not be utilized in the future.
- Clear Title: The clear tile provisions of the '85 Act became effective on December 24, 1986. As a result, the discrepancy between agricultural products and all other products will be eliminated, and farmers can no longer be forced to pay twice for the products they buy.

The 1985 Food and Security Act appears to be a success. One of the keys to this accomplishment was the fact that Congress did not change the Act in mid-stream. By allowing the Act to mature, farmers and ranchers have been able to plan and implement management practices without fear of Washington changing directions. NCA hopes that the 1990 farm bill will follow the same direction of longevity and relying on market forces to drive farm policy.

Cattlemen plan to remain involved in the development of U.S. farm policies. Our primary areas of concern will be the grain, dairy and conservation titles. This is not to say that other issues will not surface as the bill develops. NCA will work diligently with other agriculture groups to develop consensus and coalitions in order to create a farm bill that we can all be proud of.

The new idea for grain policy, triple base, is being aired as a way to provide flexibility to program grain producers in their planting decisions. Some proponents of the triple base plan would allow non-program crops to be grown on the third base. NCA questions the rational of allowing non-program crops to be planted on protected program base acres. This idea needs special review in order to ascertain the economic effect on those producers who do no participate in government programs. Grain policy in any event, should continue to use market forces for price discovery.

Dairy policy will continue to concern cattlemen. At this point, there has been little talk of either a new dairy whole herd buy-out or diversion program and that is encouraging. Congress must continue to develop dairy laws that ensure program accountability and low milk surpluses. The fear in the cattle industry is that if milk surpluses again grow to unbearable amounts, the Congress may once more consider the slaughter of dairy cows to remove the surplus. NCA can not idly stand by and allow any dairy policy to be implemented that encourages over-production of dairy cows which transpose into burdensome milk surpluses. NCA will work closely with the dairy industry to ensure that all concerns are being heard and understood. We are hopeful this dialogue will continue throughout the 1990 farm bill debate.

The Conservation Title of the 1990 farm bill may prove to be the most controversial because of forces outside of the agricultural sector. From environmental groups, other Congressional committees and the White House, the debate regarding conservation may be the most hard fought battle.

Cattlemen too are very protective of the environment, but NCA questions some methods proposed to protect the environment. NCA believes it is imperative to closely guard private property rights as Congress writes environmental laws. Farmers and ranchers will depend on both of the Agriculture Committees to defend and protect the producers private agricultural property.

The Conservation Reserve Program will certainly be reviewed and the questions of what to do with the land after the 10 year contract expires are bound to be asked. NCA's answer is; let the land return to commercial use. Some have discussed a paid extension of the CRP. If an extension program is considered, the prohibition on haying and grazing must remain in tact.

Certainly, there will be new issues and provisions in he 1990 farm bill that have not surfaced and will need to be discussed. NCA will closely follow all titles and will take part in developing the programs that affect our industry.

Mr. Chairman, thank you for the opportunity to be here today.

NATIONAL PORK
Producers Council®

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Statement of the
NATIONAL PORK PRODUCERS COUNCIL
Before the
Committee on Agriculture
U.S. House of Representatives
on the
1990 Farm Bill

July 12, 1989

Presented by: Don Gingerich, President
National Pork Producers Council
Parnell, Iowa

NATIONAL HEADQUARTERS: P.O. BOX 10383 ■ DES MOINES, IOWA 50306 ■ PHONE: 515-223-2600

Mr. Chairman and Members of the Committee:

I am presenting this testimony today on behalf of the National Pork Producers Council (NPPC), which represents 100,000 pork producers and their families in 45 states which are affiliated with the national organization. NPPC is the largest commodity dues-paying organization in the United States and accounts for more than 90 percent of the nation's commercial pork production.

One of the major external factors affecting pork producer profitability is the policy of the government as it impacts upon a producer's cost of doing business and a producer's ability to effectively market products. We want our producers, who are increasingly involved in a technologically-advanced and capital-intensive process, to obtain at least an adequate return for their substantial investment of time, energy, and dollars. That is the only way in which there will continue to be enough producers of pork who can assure American consumers what they expect of farmers -- an abundant and safe supply of reasonably-priced food.

Mr. Chairman, we commend you and the committee for its fine work in developing and implementing the 1985 Farm Bill. Overall, the last four to five years have been positive for the pork industry.

Before commenting on the new Farm Bill for the 1990s, I would like to address the foundation already set in place through existing farm programs.

1985 Farm Bill

The 1985 Farm Bill was successful in providing a continuous supply of feed for livestock, while providing new export enhancement opportunities. Specifically, existing feed grain and soybean programs have provided adequate supplies of feed at reasonable prices, except for the drought of 1988. In addition, the Targeted Export Assistance Program has allowed us to increase exports of pork to Japan.

We really have no problems with the 1985 Farm Bill. However, we may need to take a second look at the emergency feed and water-assistance programs. The drought of 1988 caused tighter feeding margins for pork producers with break-even prices projected to rise about $5 per hundredweight due to higher feed costs in 1989. Moreover, it appears that we will see more volatile grain and soybean prices in the future even without a drought.

1990 Farm Bill

Our top priority now is to look ahead to new initiatives in the 1990 Farm Bill. In particular, we want to focus on research, the environment, and trade issues.

Research

Although NPPC believes that the future of our industry is in our own hands, pork producers are convinced that we will need the cooperation of the federal government to undertake certain research programs and coordinate national efforts to control and eradicate swine diseases. Infectious diseases continue to be the main cause of illness and death in domestic livestock. We must be able to respond to disease, and the federal government can be of assistance with basic research and be available for consultation and coordination in implementing programs such as the proper use of animal drugs.

NPPC has noted a new appreciation for the need to reassess our research needs, especially within the livestock industry. We not only have existing technologies to assess and implement, but we need to identify our most serious research priorities for the next decade. Biotechnology is certain to open a new frontier for agriculture, and we need to ensure that mechanisms are in place to evaluate and use those technologies that fit into our goals in agriculture. We can make a positive contribution to the farm and rural economy if we continue to make the right adjustments in agriculture and its infrastructure in the next decade. We must also continue to develop new products to meet the various needs of consumers throughout the world.

Historically, research expenditures for the improvement of animal agriculture have not been proportional to expenditures on plant research. Livestock producers make up approximately 50 percent of total agricultural income, but animal agriculture does not receive anywhere near half of federal research dollars.

Swine research, in particular, is under-funded. Land-grant universities and Agricultural Research Service institutions have simply been lacking in funding to keep up with inflation and our foreign competitors. U.S. pork producers need the support of research directed at lowering the cost and increasing the efficiency of production through genetics, breeding, and other mechanisms. Product development and more sophisticated marketing will be required cornerstones if we are to sell competitively in the international marketplace. Agriculture in the 1990s also calls for the evaluation of alternative methods to respond to environmental concerns, and new initiatives to ensure the wholespmeness of food products for the consumer.

Trade Policy

The market forces of supply and demand would function well in the U.S. domestic context if left alone. However, that is not necessarily the case in the international export market where foreign producers are often subsidized. The federal government needs to intervene to offset unfair foreign marketing practices, rules or subsidies. The federal government should expand foreign market development efforts and assist in funding agricultural organizations in a fashion not possible by individual producers who lack governmental authority and cannot readily act cooperatively.

Heightened international competition and potentially different global trade rules after the Uruguay Round of the General

Agreement on Tariffs and Trade, also suggests that we must assess our market in terms of a world economy. Although American pork producers only export slightly above one percent of their production, we are optimistic that the right trade policy will provide new opportunities for our products.

Specifically, programs such as the Targeted Export Assistance Program provided $1.8 million in 1988 and approximately $2.5 million in 1989 for us to promote our products through pork specific activities in Japan, Hong Kong, Singapore, and other markets. Although the Export Enhancement program was not used to respond to unfair trade practices with respect to pork, we hope that we can design export programs in the 1990 Farm Bill that will provide us an opportunity to be more responsive to trade-distorting practices of our foreign competitors.

The total value of pork and related by-product exports increased to $382.5 million in 1988. However, in value terms the U.S. remains a net importer of pork, with the value of imported pork at nearly $934 million last year. Over one-half of our imports came from Canada, where pork producers received federal and provincial government subsidies in excess of $20 per animal during the last year. In addition to concerns about unfair subsidies funding foreign imports of pork, our producers are seeking further assurances that pork imports meet the same health and sanitation standards that are required of domestically produced pork.

On the export side, U.S. producers are undaunted. Pork exports have a positive impact on slaughter hogs---in 1988 exports helped prices 90¢ per hundredweight. Moreover, 12.2 million bushels of corn and 3.1 million bushels of soybeans were exported through pork in 1988. Exports of pork contributed to domestic soybean and corn use and this helped support farm income. We are optimistic about the opportunities to increase exports of pork, but recognize that the rest of the world has also learned about the tremendous economic benefits of marketing grain through hogs.

Resource Conservation

We recognize that future agricultural productivity in this country depends upon the continued availability of an adequate supply of groundwater and fertile crop land. It is in the long-term interest of agriculture not to exhaust these resources for short-term profit. In that regard, we support conservation legislation that would deny all federal farm program benefits for commodities produced on highly erodible or marginal land.

Water Quality

Water quality is an important issue to producers both as domestic consumers and agricultural users. We pledge our support to the committee to address groundwater quality concerns. We believe that there are tremendous opportunities to increase the amount of information available to our producers and to reduce the impact of groundwater pollution on human health. Through the help of the Extension Service and the Soil Conservation Service personnel, we believe that we can address many of the contamination threats to groundwater. Of course, we will need options, such as Conservation Reserve-type programs for situations where there is extreme water quality degradation.

Commodity Programs

Because the 1985 Farm Bill has worked well in stabilizing U.S. agriculture, we encourage you to continue its general direction in the 1990 Farm Bill. We would support minor adjustments in price support programs, such as more flexibility of planting and other similar changes. The key to future farm programs is that they continue to be market-oriented.

Food Safety

Pork Producers are concerned about food safety and see the need for continued efforts to ensure that we provide safe and wholesome products to the consumer. In fact, we have developed our own Quality Assurance Program to help our producers avoid illegal drug residues, improve management skills, and reduce production costs. This education program, if put into practice by the majority of U.S. pork producers, will help the industry protect or even expand its market for pork. This will be accomplished by reducing the risk of incidences that could destroy consumer confidence in pork. The Pork Quality Assurance Program provides information on hog-feed preparation, minimum withdrawal times, on-farm testing, and producer self-certification.

We support congressional efforts to make fish inspection consistent with meat and poultry inspection by having the U.S. Department of Agriculture responsible for inspection and other regulation. Moreover, it may be more appropriate not to have food safety as a separate title of the Farm Bill, but address it in free-standing legislation before the 1990 Farm Bill.

Conclusion

The 1980s have brought dramatic adjustments to agriculture here and abroad. The 1990s are likely to bring additional changes with the world economy being more interdependent than ever. Biotechnology, environmental concerns, and more sophisticated foreign competition, point to a whole different horizon of change and we must stand ready for new directions for farm and trade policy. The National Pork Producers Council offers its services in helping to design a new farm bill that will lead us into the next century.

TESTIMONY OF RICHARD ADEE
PRESIDENT, AMERICAN HONEY PRODUCERS' ASSOCIATION
BEFORE THE
HOUSE COMMITTEE ON AGRICULTURE
ON THE 1990 FARM BILL
JULY 12, 1989

Mr. Chairman, I appreciate the opportunity to appear before the Committee to testify in behalf of the American Honey Producers' Association on the 1990 farm bill. The Association represents beekeepers responsible for the major portion of honey that is produced commercially in the United States. Our members conduct operations in most of the States of the Union. I am President of the Association and a major honey producer located at Bruce, South Dakota.

Our Association strongly recommends continuation of the current price support program for honey with minor modifications. The support program is essential to the viability of the domestic honey industry.

A healthy beekeeping industry provides a unique service to American agriculture. It is responsible for the abundance and high quality of agricultural products that we enjoy in the United States today. It is particularly important for production of fruits and nuts, for vegetable and melons, and for a number of field crops, as well as enhancing the value of beef and dairy products which are derived from insect-pollinated legumes. In a recent study conducted by the Department of Entomology at Cornell University, it was conservatively estimated that about $9.7 billion or one third the total value of these crops is directly attributable to honey bee pollination in bringing about increased yields and higher quality produce.

Commercial beekeepers depend for survival on the combination of pollination rental fees, the honey price support program and receipts from marketing of their honey.

Prior to the 1985 farm bill, the honey price support program was operated through non-recourse loans and purchase agreements. Inflation in the economy caused the price support level to rise above prevailing world market prices. This acted as an incentive for honey packers to import lower priced honey, and honey producers thus forfeited to CCC the honey that had been placed under loan. In 1984, CCC acquired 98 percent of the honey placed under loan, which was 64 percent of the domestic honey production, and honey imports rose to over 138 million pounds.

The 1985 farm bill initiated a marketing loan program for honey which drastically reduced loan forfeitures, imports, and as a result Government costs. Under that program, the producer is able to redeem honey farm loan at prevailing world market prices.

For the 1986 crop, forfeitures have dropped to 24 percent of loan collateral, and by 1987 imports had contracted from 41 percent of domestic use to 18 percent of domestic use, and exports for the first time began to rise. Outlays for fiscal 1987 declined to $72.6 million.

Since that time complications were added to the honey program through the imposition of a payment limitation and a loan limitation. The loan limitation was lifted for a year, only to be supplanted by a loan forfeiture limitation. I need not dwell on that issue, only to say that these limitations have had the effect of increasing, not reducing, program costs.

The 1985 farm bill also provided for annual reductions in the honey support rate, increasing to five percent beginning with the 1988 crop. Additional reductions were later added as compensation for lifting the loan limitation for a brief period causing the loan rate to fall as much as eight percent one year. In all, the honey support rate fell from 65.3 cents per pound for the 1985 crop to 53.77 cents per pound for the 1990 crop -- almost 18 percent -- a larger drop than for any other commodity.

The marketing loan program has worked well, and we urge that it be continued to assure movement of honey into commercial markets, a reduction in imports to those needed to meet any shortfall in domestic supplies and lower Government costs.

There are refinements, however, that we seek in the program. The loan rate should not continue its downward plunge -- the support rate on honey has been reduced more than any other commodity by the 1985 farm bill and is reaching the point where the level will no longer be able to keep our producers in business. Also, honey is the only commodity which is subject both to a payment limitation and a loan forfeiture limitation. The combination of the two limitations has been counterproductive -- it has created administrative complexities and has limited the flow of honey through the loan program into the market.

Under the 1985 farm bill, exports of honey have begun to expand. There is potential for an even larger increase in exports through continued support of the cooperator program and the targeted export assistance program. We, therefore, wish to add our voice to the other commodity organizations that are looking to the Committee to continue these programs at their current level. They more than pay for themselves by improvements in our balance of trade.

This concludes my prepared testimony. I appreciate the opportunity to share my views with you, and will be pleased to respond to any questions.

TESTIMONY OF

BINFORD WEAVER
of Navasota, Texas,

On Behalf of
AMERICAN BEEKEEPING FEDERATION, INC.
P.O. Box 1038 - - Jesup, GA 31545

On behalf of the American Beekeeping Federation, I want to thank you for this opportunity to present our views on the effectiveness of the Honey Loan and Price Support Program provisions of the Food Security Act of 1985. We feel the current program is highly effective and strongly recommend that it be continued -- with an increase in the support rate -- in the 1990 Farm Bill.

Our association -- of which I am a past president and currently a member of the legislative committee -- includes about 2,000 members located in every state of the Union and involved in every aspect of beekeeping. Our membership encompasses honey producers, pollinators, honey packers, producers of queens and package bees -- anyone interested in beekeeping. We have every size beekeeping operation represented -- from the one-colony hobbyists to the multi-thousand-colony migratory beekeepers.

The effect of the 1985 Farm Bill on the U.S. honey producer has been astounding. Under the old parity-based program, the honey market had been turned upside down. The formula had made the U.S. Department of Agriculture the producers' best market as they were forced to choose between selling their honey at world market prices and forfeiting it at loan support prices. Honey packers were using imported honey which was being brought in to fill the void left by the diversion of domestic honey to donation programs. At the support level, honey producers were receiving good prices for their honey, but they were demoralized by forfeiting their honey to the government while U.S. consumers ate foreign honey. This was an economic necessity, but it was an undesirable situation.

With the enactment of the 1985 Farm Bill, the honey program was changed to a marketing loan approach. The producer puts his honey under loan at the mandated support price and redeems it at lower rate, which is set to allow domestic honey to compete with imports and to reduce program costs.

The effect was immediate. U.S. honey packers began to buy domestic honey again. Honey imports subsided. Foreign buyers showed renewed interest in U.S. honey. And, even though they faced a decline in the support rate, producers regained considerable enthusiasm for returning to normal marketing procedures.

We are now beginning to market our fourth honey crop under the provisions of the 1985 Farm Bill. Due to changes brought to the honey program by provisions in the annual agricultural appropriations measures, no crop year has been handled entirely like the one before it. And, some producers lost their traditional markets in the pre-1985 turmoil and are still forfeiting a portion of their crop as they attempt to totally re-enter the marketplace. There have been some bumps in our progress, but we look for a continued decline in program costs as well as a continued decline in honey forfeitures. The American Beekeeping Federation is committed to pursuing both of these goals while working for the honey program to be as equitable as possible.

The one worrisome aspect of the honey program has been the steady decline of the support rate. The support rate for first honey crop affected, 1986, was set below that of the previous year; the 1987 rate was reduced further. Each year thereafter, through 1990, the support level drops 5 percent from the previous year's level.

In addition, in the Continuing Resolution for FY-1988 one segment of our industry agreed to additional cuts in exchange for removal of certain forfeiture limitations. A portion of the 1987 crop was cut 2 cents per pound; the support rate for the 1988 crop was reduced 3/4-cent; 1989, 1/2-cent; and 1990, 1/4-cent.

Taken together, the 1985 Farm Bill reductions and the appropriations reductions will have reduced the honey support level by 18 percent from the 1985 crop to the 1990 crop. We can find no comparable reductions in support rates for any other commodity.

As you might suppose, the cost of operating a colony of bees has not been static during this period. Aside from normal increases in the cost of doing business, U.S. honey producers face two costly problems that were of unknown dimensions in 1985 -- the honey bee tracheal mite and the varroa mite. Current treatment programs could add as much as $10 to $12 per colony to our operating costs. This amount would be roughly equivalent to 20 pounds of honey per colony. Equitable honey prices are essential for our producers to be able to successfully battle these two pests. And, ahead of us we have the Africanized honey bee, which is certain to further increase our operating costs.

In consideration of the increased costs our beekeepers are experiencing and those ahead of us, we feel that an increase in the honey support rate is in order.

We view a rate increase as vital to the well-being of both honey production and pollination services in this country. Our beekeepers are being caught in the well-known cost-price squeeze. If this trend is allowed to continue through another farm bill's cycle, many beekeepers will be forced out of business.

Another facet of this situation is the on-coming Africanized honey bees. The best weapon we have against these pests is the strong, well-established American beekeeping industry. If our industry is hamstrung by lack of profitability, we will not be able to capitalize on the tactics the researchers say we should use to deal with Africanized bees: more frequent re-queening, artificial (controlled) insemination of queens, more workers in the beeyards, and more frequent visits to give our colonies closer attention -- all of which will cost more money. If we are not able to maintain our colonies of desirable bees in a given area, feral colonies of African bees will "occupy" that territory to the detriment of many rural residents.

While not strictly a farm bill issue, I must mention the parallel needs in the area of research. I have mentioned the big research needs -- tracheal mites, varroa mites, and Africanized bees -- but there are also other research needs that face beekeepers as well. The beekeeping laboratories of the Agricultural Research Service have no shortage of research problems to address.

I would also be remiss if I did not mention the successful National Honey Board program. With the support and assistance of this committee and its chairman, the American honey industry has developed a highly effective self-supported promotion program. Through the efforts of the Honey Board, usage of industrial honey in processed products is up and a long-standing decline in consumer use of honey has leveled off.

The industry is supporting legislation that will make a few "housekeeping" changes in the legislation under which the Honey Board was established. In addition to these minor changes, the American Beekeeping Federation supports an end to the assessment refunds now available to domestic producers and importers. At the proper time, we will be asking for legislation to effect this change as well.

We appreciate the support we have received from the House Agriculture Committee in the past and we look forward to working with the committee on the 1990 Farm Bill.

Thank you again for this opportunity to present our views.

-- Binford Weaver
Rt. 1, Box 256
Navasota, TX 77868

1990 Farm Bill Testimony
Brian J. May
Mohair Council of America

Thank you, Mr. Chairman, members of the committee and staff. Thank you for allowing me the opportunity to discuss with you briefly our interest in the Wool Act. I speak to you on behalf of the mohair industry of the United States and of individual producers.

I am a mohair producer near San Angelo, Texas and also the Executive Director of the Mohair Council of America. In this brief which we are presenting to the committee, we will point out the many positive features of the Wool Act and what it contributes both to the mohair industry and in terms of the nation.

There have been only 16 mohair payments to the growers under the Wool Act in the past 34 years. Total mohair sales during that period were $176 million. Ninety-eight percent of this production is exported overseas.

Mohair comes from the Angora goat. It is the most important specialty fiber produced in the United States. The United States produces 35% of the 50 million pounds available in world markets each year. Along with Turkey and South Africa, the U.S. accounts for about 95% of the world mohair production. Since the largest part of the Turkish clip is processed and consumed internally or bartered with the USSR, the free world depends on us and South Africa to supply their raw mohair needs particularly of the higher quality product.

Important reasons for renewal of the Wool Act are these:

1) Since the inception of the Act, the revenue generated from mohair sales has totaled over $750 million and since it is an export commodity this contributed to a more favorable balance of trade.

2) Angora goats make excellent use of the low quality range plants. In addition, they contribute to water conservation by utilizing water wasting woody brush plants. Angoras are often used, instead of toxic chemicals, to open up brush infested pasture land.

3) In recent years many Angoras have been purchased for small land tracts for diversification in farm flock programs and to supplement other income. For example, in Oklahoma a few years ago when all the ag lending agencies were being hard hit, bank loans on angora goats were the best performing notes in that area.

4) Income from mohair is very important to producers in one large part of Texas, an area as large as the state of Pennsylvania, and the members of the Navaho tribe who reside on tribal land in the four corner area of Utah, New Mexico, Colorado and Arizona. Nationwide there are about 10,000 ranch families that depend on the Angora goat for the major part of their income and in 10 counties in Texas it ranks from 20 to 45% of their total agriculture income. Other support industries account for thousands of additional jobs which rely on mohair.

Since mohair is a specialty fiber, its market is subject to many problems including manipulation. Due to the volatility of market prices, both producers and end users seek some measure of stability as is provided in the terms of this program. This floor price tends to give lending institutions in our area confidence to finance angora goat operations as the wide price fluctuations that make their lives very difficult on the down side.

There appears to be no reason to discontinue, modify or suspend the Wool Act as it has performed exactly as the original legislation intended. This industry through the direction of the unique features of the Wool Act is one of the best examples of the cooperation between the Secretary of Agriculture, government and mohair producers.

The Wool Act has allowed producers, at no cost to the taxpayers, to improve the quality and quantity of their product in response to world demand and in spite of the price manipulations. The mohair producers in the United States trust that Congress will continue to acknowledge the effectiveness of the Wool Act and hope that Congress will realize that the funds for this program are not based on any tax legislation but actually come from tariffs on imported wool and mohair produced outside this country.

Mohair producers do not want or do they see a need to make any changes in the Wool Act. The Act should be renewed to include the incentive features which enhance the quality and quantity of mohair and to be able to deduct funds to conduct advertising and promotion programs such as we have with the Mohair Council of America.

American Sheep Industry
Association

July 12, 1989

Good Morning. My name is Pierce Miller and I am a sheep and goat rancher from San Angelo, Texas. I am representing the American Sheep Industry Association and the over 115,000 sheep and 10,000 goat producers in this country. I am also chairman of the Legislative Action Council of this newly formed organization which joined the National Wool Growers Association and the American Sheep Producers Council. The foundations of the American Sheep Industry Association are over 120 years old and represent the oldest livestock commodity group in this country.

Mr. Chairman, The American Sheep Industry would like to thank the Committee for providing the association with the opportunity to meet with you. Today I would like to talk about the importance of continuing the Wool Act and its significance to rural America. Our industry supports the extension of the Wool Act with the 1990 Farm Bill, and the incentive program for wool and mohair it provides.

Since 1954 American sheep and goat producers have relied on the Wool Act to improve their ability to compete with foreign imports of raw wool. This law, known as the Wool Act of 1954, changed the basic nature of the wool and mohair program from the price-support loan programs that had existed previously. To offset the market depressing impact of imports, incentive payments were authorized based on the average market price. These incentive payments have stabilized income received from wool and mohair, making it economically feasible to produce wool and mohair consistently in the U.S.

Over the past third of a century, this same law has been renewed with only minor changes. However, unlike some commodity programs, if the law is allowed to expire there is not a permanent base law which continues the policies of the Wool Act.

One of the biggest innovations of the 1954 law was the funding for the incentive payments; funding is supplied through the tariff collections on wool. According to the report of this Committee in 1985, "The National Wool Act of 1954...provides a permanent appropriation to the Commodity Credit Corporation, under which the Corporation is reimbursed each fiscal year an amount to cover program costs that cannot exceed 70 percent of the wool duties collected,...under the Tariff Act of 1930." This unique element of the program was key to the proposal presented by the Eisenhower administration in 1954.

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Although producers are entitled to payments of up to 70 percent of the tariffs collected, the payments for wool and mohair have averaged only 35-40 percent of the available amount over the past several years.

In 1985 the Congress once again recognized this unique feature. According to the House Committee of Agriculture's report on the Food Security Act of 1985, "...the costs associated with the wool price support program are not a burden on the United States taxpayer." **This is because foreign competition for American wool actually reimburses the federal treasury for incentive payments to domestic producers, resulting in no net cost to the U.S. taxpayers!**

Despite its significance, the wool industry was hindered in the early seventies by the influx of synthetic fibers into the U.S. market. On top of cheap competition from polyesters, the wool payment percentage was frozen and rising production cost had to be absorbed by the producer. During this ten year period the total U.S. wool production decreased by 37.5 percent: and many woolen mills and manufactures left the wool business. There was a resurgence in wool production after the freeze was lifted; however our industry was set back along with all of agriculture by the drought in the early eighties and the general depression in the farm economy. Meanwhile the U.S. wool demand has been growing.

We must be able to supply more of our own needs. The Wool Act provides incentives to our producers to encourage production. It also authorizes the secretary of agriculture to develop a promotional program with a check off from the incentive payments. The combination of incentive and promotion is working-- quality, supply and demand are improving. This check-off program was the first self-help commodity program.

The promotional funds have helped the industry to promote domestic lamb as the meat of choice and build a renewed interest in wool as a fiber of preference. In the past 5 years, domestic wool consumption has increased by 6.1 percent. Reacting to this expanding market, total sheep production is increasing at a net rate of about 2 percent per year. Overall the number of sheep operations grew nearly 1,000 in 1988, with many of the increases being farm flocks on small family operations.

Many small producers, especially in the eastern half of this country, raise sheep primarily for meat. These producers would be less likely to follow recommended marketing procedures for their wool without the continued incentive payments. Though small producers account for only 3 percent of the total program outlays income from the sheep portion of the farm operation helps the profitability of these farm families.

In the west, many sheep are raised on lands that could not be utilized for any other type of agriculture. Many rural counties and communities lack economic alternatives and are dependent on the sheep industry for stability, making the Wool Act an important rural development program.

Although the Wool Act is one of the lesser know commodity programs in the farm bill, the incentive program it provides is crucial to many sheepmen and farming communities. Wool and mohair sales contributed approximately $152.8 million to our rural economy in 1988 and the incentive program added another $130.6 million. Manufacturing fabrics and yarns from domestic wools added an additional $210 million and the wholesale value of the apparel produced added $350 million. And let's not forget the American jobs represented by these revenue figures. (Calculations courtesy of the ATMI wool committee)

What does the future hold? The U.S. producers and manufacturers of wool products have the potential to more fully meet consumer demand and return jobs to this country. But to do this they must have the stability furnished by the Wool Act.

Through the promotional funds available through the Wool Act, lamb and wool are increasingly finding their way back into the American home. Consumers are wearing wool year around in the work place and nutrition conscious food buyers are demanding lean lamb.

Our nation's sheep and goat industries have had a long history and have a great future in this country.

Renewing the Wool Act will give the industry the financial stability it needs to continue promotion and increase production to meet the needs of the American people. This increased production in turn will reduce our country's dependence on imports and continue the vital rural development impact of the Wool Act.

The Wool Act is a law we can be proud of and it should be renewed in its present form.

NCPA
NATIONAL COTTONSEED
PRODUCTS ASSOCIATION

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Statement of the National Cottonseed Products Association
to the House Committee on Agriculture
on Review of Issues Relating to Formulation
of the 1990 Farm Bill
July 12, 1989

My name is R. A. (Rufe) Aker. I am President of Anderson Clayton Co., headquartered in Phoenix, Arizona. I am also President of the National Cottonseed Products Association (NCPA), on whose behalf this statement is submitted.

NCPA is a non-profit trade association, organized in 1897. The members represent 98% of the U.S. cottonseed crushing capacity and the majority of refiners and exporters that process and ship cottonseed oil. My remarks will focus on the 1990 Farm Bill as it relates to export programs for vegetable oils, and cottonseed oil in particular. The National Cotton Council is also including testimony on this subject as part of a broader range of concerns.

As a general statement, NCPA supports a renewed effort to readjust U.S. foreign policy to be more responsive to the economic interests of American agriculture.

It is our fervent hope that the Uruguay Round negotiations will eventually reduce subsidies and restore balance to international trade so that free markets will prevail again for vegetable oils. In the meantime, however, the only way to avoid further severe loss of world market share is through government assistance programs.

NCPA favors continuation of the current programs for assisting exports of vegetable oils; i.e., PL 480, GSM credit, Export Enhancement (EEP) and the Sunflower, Cottonseed Oil Assistance Program (SCOAP). We believe these are the most effective programs to allow U.S. producers and processors to compete in export markets against subsidized foreign competition.

However, we believe modifications in some of the programs would greatly enhance their effectiveness without increasing costs, to wit:

1. The timing of shipments under PL480, GSM and other programs should be given more consideration, so that exports will more closely coincide with seasonal harvesting and processing patterns. This would ensure more orderly movement of products to export, decrease storage costs and enhance raw material values to producers.

2. Export markets for cottonseed oil are comparatively limited. Only 3% of the vegetable oil shipments under EEP have been cottonseed oil because none of the traditional importers were included on the list of elibigle countries selected by USDA. We suggest that future legislation for EEP should include language that insures the program will be administered in such a way as to address the foreign trade patterns of all segments of the vegetable oil industry. In particular, we would like to make certain that traditional importers of cottonseed oil are included among the eligible countries.

3. The purpose of SCOAP as stated in the current legislation is "to facilitate additional sales of (cottonseed and sunflower) oils in world markets at competitive prices, so as to compete with other countries."

Continuation and extension of SCOAP is particularly important for cottonseed oil because of the limited foreign markets mentioned above. Although no sales of cottonseed oil have yet been approved for SCOAP bonuses, we believe the program, with some administrative modifications, will prove to be very effective in offsetting the foreign subsidies and uneven world prices that threaten to undermine years of market development work by the U.S. cottonseed crushing industry. Once lost to foreign suppliers, these markets will be difficult if not impossible to recover.

As always in the past, NCPA stands ready to cooperate with the Committee in all ways to provide information useful to the development of legislation that will keep America's agriculture the strongest in the world. Thank you for allowing me the opportunity to submit these comments.

Respectfully Submitted,

R. A. Aker

R. A. Aker
President

STATE OF ILLINOIS
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JOHN A. DAVIDSON
ASSISTANT MINORITY LEADER

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July 11, 1989

The Honorable Edward R. Madigan
Congressman
2109 Rayburn House Office Building
Washington, D.C. 20515

Re: SJR 67
-Recommendations for
1990 Farm Bill

Dear Ed:

It is my privilege and distinct personal pleasure, as the Senate Sponsor, to forward the enclosed Resolution to you. Adopted by the Illinois General Assembly, it recommends that, in the enactment of the Food and Security Act of 1990, you (1) support the continuation of the landmark conservation provisions of the Act of 1985 and (2) support strengthening these provisions in the ways set forth in the Resolution.

These recommendations were developed by a special committee, convened by executive authorization, comprized of representatives of both the governmental and private sectors and the farm and conservation interests of our State.

The General Assembly urges you to support this Resolution and to enter it as testimony in the appropriate committee hearings. We would be particularly pleased if you and your staff would communicate with those persons who are now drafting the 1990 Farm Bill and seek their response to inclusion of these recommended provisions.

If you need further information or assistance or expert testimony from our resource people, please let me know.

Sincerely,

John

John A. Davidson
Assistant Minority Leader

JAD:ph

enclosure

STATE OF ILLINOIS
EIGHTY-SIXTH GENERAL ASSEMBLY
SENATE

Senate Joint Resolution No. 67

Offered by Senator John A. Davidson

WHEREAS, We applaud the actions of the Congress in creating the conservation provisions of the Food Security Act of 1985; and

WHEREAS, We acknowledge a substantial Conservation challenge exists to protect the future of this nation's food supply and natural resource base; and

WHEREAS, The State of Illinois, through executive authorization, has convened a special committee to consider recommendations for the 1990 Farm Bill, which committee is comprised of representatives of both the governmental and private sectors and the farm and conservation interests of our State; we hereby respectfully submit these recommendations to reaffirm support for existing portions of the Farm Bill and to put forth new recommendations for consideration:

(Recommendations new to the Farm Bill are set forth with underlines)

(A.) WETLANDS

(1.) Wetlands provisions, currently contained in Title XII, should be maintained but strengthened in the 1990 Farm Bill. Increased emphasis should be given to the importance and usefulness of wetlands for the many ecological and social benefits they provide. The wetlands provisions should continue to be tailored to prevent wetlands drainage, but should now also encourage restoration of wetlands areas for these values rather than for the control of commodity production. The historic emphasis on conversion of such land to row-crop production should be reversed.

(2.) Greater reasonableness of administration of procedures relating to wetlands retention and enforcement should be included in the provisions of the Act. A method for accomplishing this in a way that would enlist the support of the farm sector is proposed. It is recommended that, to this end, the County Soil Conservation Service (SCS) Offices should have the latitude: (a.) to allow transfer of some wetlands acreage to production agriculture, providing the on-farm total of wetlands is at least maintained or is increased, and (b.) to accept the substitution of artificially created wetlands of the same or greater wetlands value for natural wetlands on the same farm.

(3.) Drained wetland basins which are restored to wetlands, and an area of upland around such basins, at least the size of normally designated filter strips, should qualify for the Conservation Reserve Program (CRP). Present guidelines should continue to be utilized to allow drained wetland basins to qualify for the CRP Program. This change will allow the restoration of these basins despite soil erosion limitations in the immediate area. An area of upland surrounding such basins, at least the size of normally designated filter strips, should qualify for CRP.

(4.) Consideration should be given to cost-sharing for the restoration and retention of wetlands. This cost-sharing should include the restoration projects and the establishment of permanent vegetative cover around such wetland basins.

(5.) Continue the national wetlands inventory and the designation of wetlands as protected or not protected. The landowner or farmer should then be notified of the designation and given the opportunity to appeal such designation. Once a wetland is designated as protected in the final form, it would not be eligible for drainage or other alteration without first obtaining an exception. The exceptions should be issued by the SCS in concurrence with the U.S. Department of Interior cooperating with the State's Fish and Wildlife agencies. Exceptions approval should require replacement of any wetland lost with replacement wetland of equal or greater value. Exceptions should also be approved where changes in the land have occurred naturally.

(B) CONSERVATION EDUCATION

It is recommended that, under Title XIV of the Food Security Act of 1985, a special Conservation Education Fund be created. This fund should be administered jointly by the U.S. Fish and Wildlife Service and the Cooperative Extension Service. The trust fund should not be less than .05 of all monies authorized for appropriations for Extension education under Section 1423 of the Food Security Act of 1985. Monies should be granted from this fund to the land grant universities and other designated universities to fund a soil, water and wildlife management course as an agriculture degree requirement at participating universities. Forty percent of this fund should be earmarked and used to promote the value of wetlands to a more general audience through grade school and high school programs and general advertising and promotion. These efforts should be linked to those of other agencies including the Department of Agriculture, Department of Interior, and Fish and Wildlife Service.

(C) SODBUSTER PROGRAM

Current provisions of the Sodbuster Program should be continued. A variance or appeals process at the local level to exempt lands should be the recourse of choice. Any lands returning to production from CRP contracts or other uses must be farmed with an approved conservation plan. The only criteria for acceptable soil loss under said conservation plan should be the "T" soil loss value. The CRP lands retired under ten-year contracts should be considered as protected lands under the Sodbuster provisions after contracts expire.

(D) CONSERVATION RESERVE PROGRAM

The Conservation Reserve Program (CRP) is a highlight of the 1985 Farm Bill and its continuation in the 1990 Farm Bill is extremely important. For improvement of the CRP program, it is recommended: (a) that acreage goals for the program be expanded, (b) base feed grain crops acreage and/or other row crop acreage should be reduced on farms where previously cropped acres are enrolled in CRP, (c) that additional focus on water quality and ground water supplies should be considered, and (d) that some wetlands should continue to be allowed for enrollment in CRP to restore wildlife habitat and enhance water quality in general. Filter strips or buffer strips along streams, creeks or other waterways should continue to be included in allowable CRP acres. Filter strips from 66 to 99 feet wide should be approved, where necessary. Lowland fields currently in row crop production and susceptible to frequent flooding of long duration and floods scoured areas should continue to be considered for CRP enrollment. Separate criteria for these acres should be established to confine enrollment to appropriate sites. Additional criteria should also be considered for alternate vegetative cover on CRP acres. (e) Field windbreaks and farmstead shelter belts should also qualify for the CRP program regardless of the soil erosion rates. The Act should allow the planting of woody *windbreaks and shelter belts and other woody plantings for wildlife as tree acreage which can be enrolled without restrictive soil erosion criteria. Cost share monies should be provided to help establish seedlings and improve survival in the aforementioned plantings. The moisture retention quality of windbreaks and shelter belts should also be considered a valuable benefit.*

(E.) CONSERVATION COMPLIANCE

The soil loss "T" standard, a longstanding proven method of assessing acceptable soil loss, is recommended as the only consistent and reliable measure of soil loss that is acceptable to use in the Farm Bill programs. The "T" standard should be established legislatively. There should be a case by case appeals process whereby practices such as alternative conservation systems could be employed on a limited basis.

(F.) MULTIYEAR SET-ASIDES

It is recommended that at least five percent of a farm's base acreage be enrolled in an annual set-aside acreage but be committed to a multiyear contract--three to five years in length. The acres committed to the multiyear contract should remain in the same location and should be paid at a higher rate than the remainder of the annual set-aside. Vegetative cover on these set-aside acres should be strongly encouraged. Such cover should be capable of maintaining itself to provide soil protection, water quality enhancement, wildlife habitat, emergency forage production and land improvement. Cost share monies should be used as an incentive when three to five year participation is utilized. Long term vegetative cover guidelines should be drafted with major emphasis being given to the soil, water and wildlife conservation benefits of such cover. The commodity reduction aspect of the annual set-aside will remain effective. On annual set-aside acres, as well as on longer contracted set-aside acres, mowing should not be permitted until after August 1st of each crop year.

(G.) STRATEGIC FORAGE RESERVE

Effective for the 1990 and future crop years of any acreage reduction program or optional paid land diversion for wheat and feed grains, the Secretary of Agriculture should establish a Strategic Forage Reserve (SFR) by requiring at least five percent of a farm's base acreage be enrolled in a three year or longer set-aside contract.

The concept of strategic forage reserves, based on the same multiyear contract acres, would provide a method of protecting CRP land should those forage reserves be required. When appropriate criteria are met for the release of the strategic forage reserve, up to 50 percent of the multiyear acreage set-aside contracts would be released first. More restrictive criteria would exist to trigger additional releases of set-aside acres. Long-term vegetative cover guidelines should be drafted with extreme consideration given to the soil, water and wildlife conservation benefits of that cover. The commodity reduction aspect is a foregone conclusion.

Lands enrolled in the SFR shall be eligible for 50 percent cost-sharing for seeding and establishing vegetation.

Cutting of hay or grazing of livestock on SFR acres should be prohibited, except at times in places of major disaster where the Secretary determines cutting of hay is necessary to provide emergency forage supplies. In such cases, the producers should be allowed to sell the hay harvested from the reserve acreage; therefore, be it

RESOLVED, BY THE SENATE OF THE EIGHTY-SIXTH GENERAL ASSEMBLY OF THE STATE OF ILLINOIS, THE HOUSE OF REPRESENTATIVES CONCURRING HEREIN, that we call upon the Congress of the United States, the Senate Committee on Agriculture and the House Committee on Agriculture, and upon the President of the United States, to support in the enactment of the Food and Security Act of 1990, the continuation of the landmark conservation provisions of the Act of 1985 and to support the recommendations for strengthening these provisions in the manner recommended herein; and be it further

RESOLVED, That suitable copies of this preamble and resolution be presented to President George Bush, to the President of the Senate and the Speaker of the House of Representatives of the United States Congress, the chairpersons of the aforementioned committees, the Secretary of Agriculture, the Secretary of Interior, and to all members of the Illinois Congressional Delegation, the latter being urged to support this resolution and to enter it as testimony in the appropriate committee hearings.

Adopted by the Senate, June 15, 1989.

Philip J. Rock
President of the Senate

Linda Hawker
Secretary of the Senate

Concurred in by the House of Representatives, June 24, 1989.

Michael J. Madigan
Speaker of House of
Representatives

John O'Brien
Clerk of House of
Representatives

Fair Farm Policy
Box 328
Montevideo, MN 56265

Mr. Chairman,

Fair Farm Policy is a group of farmers and farm families who are concerned about the destruction to farmers and farm communities caused by the injustices of the current U.S. Sugar Program. We are a new organization with roots in west central Minnesota and are currently branching out to include all areas of the country where sugar is produced.

Our goal is not to destroy the U.S. Sugar Program. We want to see the U.S. Sugar Program brought back in line with other commodity programs so that it will not have an adverse affect on other farmers and farm communities.

The problem with the current U.S. Sugar Program is that it is creating a financial elite among U.S. farmers by guaranteeing sugar producers nearly ten times the net profits that corn, soybean and wheat farmers are getting under the 1985 Farm Bill.

In Minnesota, we have available to us the averages from over 6000 farm family financial records. We have a Farm Business Management Program that is offered to farm families through the technical colleges and high schools. Instructors aid families in preparing records that are used for tax preparation and for analysis of the various farm enterprises.

These records are then averaged for the six regional areas and the results are public information. Because these numbers are from actual farm records and are used for taxes and farm planning, they give us the most accurate picture of what is happening to farm incomes. The net returns per acre per year (what is left over after all farm expenses) for the years 1985 to 1988 are $25 for corn, $28 for soybeans, $27 for wheat and $280 for sugarbeets. (See attached sheet) This clearly shows the sugar program is lavishing enormous profits on just a few. And when you subtract the cost of living per acre for farm families, the corn, bean, and wheat growers have virtually nothing left, but the sugar beet growers have approximately $180 net profits per acre remaining.

The exorbitant profits that are guaranteed to sugar producers naturally give them a tremendous incentive to expand. This is where the problem lies for the rest of agriculture. The superior financial advantage that the sugar growers have allows them to dictate to the rest of agriculture which land resources they will take for sugar production. The inability of other farmers to compete with sugar growers is driving farmers from the land and prohibiting any new farmers from starting.

The expansion has a multiplier effect. A 20% acreage expansion is a 80-100% expansion in terms of land need. Sugar beets need a four-to-five year rotation so for every one acre of sugarbeet acerage increase, the grower needs four-to-five acres of new land. The only place to get that new land is from existing farmers. The advantage that sugar growers have allows them to take whatever land they want.

The creation of a few financial elite has an adverse impact on our small communities, businesses, churches, and schools. The short term effect may be looked upon as positive because of the infusion of new dollars, but the long term effect is devastating because of the loss of population. We are losing a whole generation of young farmers. That loss means that we need less teachers, less businesses, fewer churches and less people to service a dwindling number of farmers. It is unfortunate that the sugar program is rapidly accelerating the natural decline of farmers that has been occurring in rural America.

The solution that Fair Farm Policy offers will protect the domestic sugar industry and will be a step towards bringing sugar back in line with other commodity programs.

We propose that the support level be dropped from 18 cents to 12 cents. The price of 12 cents will still insure higher profits for sugar over other commodities. Thus, the need for production limits must also be considered. We believe that production at the 1985 levels with a 12 cents support will insure a healthy domestic sugar industry that doesn't adversly affect the rest of
agriculture. Studies also show that the 12 cents support would actually increase the use of corn.

In closing, Mr. Chairman, we want you to know that we support a U.S. sugar program that protects the domestic industry from unfair foreign dumping and gives the U.S. farmer a support level similar to other commodity programs. The current policy creates such a huge inequity that it must be changed.

Thank you,

FAIR FARM POLICY
Steering Committee

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Ron Carpenter
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COMPARISON OF CROPS
NET RETURN/ACRE
MINNESOTA 1985 thru 1988

Complete state of Minnesota

Figures compiled from the MINNESOTA FARM ACCOUNT BOOK

CORN	1985	1986	1987	1988	AVERAGE
NUMBER OF RECORDS	1982	2102	2298	3314	
NET RETURN/ACRE	$35.32	$12.97	$69.94	($16.28)	$25.49

SOYBEANS	1985	1986	1987	1988	AVERAGE
NUMBER OF RECORDS	1428	1444	1634	2732	
NET RETURN/ACRE	($5.84)	$20.50	$50.93	$48.11	$28.43

ALL WHEAT	1985	1986	1987	1988	AVERAGE
NUMBER OF RECORDS	706	931	1075	1350	
NET RETURN/ACRE	$62.78	$16.82	$31.05	($3.49)	$26.79

SUGAR BEETS	1985	1986	1987	1988	AVERAGE
NUMBER OF RECORDS	53	83	120	114	
NET RETURN/ACRE	$196.83	$219.35	$358.74	$106.16	$220.27

FOR MORE
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STATEMENT OF

Nelson S. Gardner
Bridgewater, Virginia

Before the

COMMITTEE ON AGRICULTURE

of the

UNITED STATES HOUSE OF REPRESENTATIVES

Regarding

PROVISION IN THE DAIRY TITLE OF THE 1990 FARM BILL

FOR

MANAGING THE SUPPLY OF MILK

July 12, 1989

Representing

HOLSTEIN ASSOCIATION OF AMERICA

Holstein-Friesian Association of America®

I am Nelson S. Gardner of Bridgewater, Virginia, where with my family involving two sons and their families in partnership operate a farm that supports 130 milking cows and 350 head of young stock. In addition, I am President of the Valley of Virginia Cooperative Milk Producers Association through which 350 dairy farm operators market their milk.

At this time, I am speaking on behalf of the Holstein Association of America and its 56,000 members, representing about 20,000 dairy operations. I have served 8 years on its Board of Directors and 6 years as Chairman of its Milk Marketing Advisory Committee. During this time, I have seen the feeling of the Holstein Association Membership (Grassroots Dairymen) move rapidly toward supporting a concept of managing the supply of milk production. At its annual meeting on June 28, 1989 with all states in the United States represented, the delegates pass the following resolution by an overwhelming majority.

"WHEREAS, consumers in the United States spend the lowest percentage of their income for food of any country in the world; and

WHEREAS, dairy production in excess of market needs causes producer prices to drop to the floor of that market; and,

WHEREAS, the present market situation allows profit for surplus products for everyone except the producer,

NOW, THEREFORE BE IT RESOLVED, that we, the delegates to the Annual Meeting of the Holstein-Friesian Association of America at Minneapolis, Minnesota, June 28, 1989, endorse the concept of farmer-controlled supply management; and

BE IT FURTHER RESOLVED, that we, the delegates urgently request the National Holstein Association to aggressively pursue the cause of a farmer-controlled dairy production supply management concept so that such a concept is adopted in the 1990 Farm Bill."

We can all accept and understand that some of the more inefficient dairymen must fall by the wayside, but the present pricing policy is not permitting an adequate return for otherwise good managers. It certainly seems to us that the time for considering such a proposal is when the supply and demand for milk is in pretty decent balance as it is today, not when there is a shortage or a surplus.

For such a program to receive support of the producers and to be effective, it should be producer-controlled. Over the long run, such a program would be less expensive to the government and be more satisfying to dairymen.

On behalf of the Holstein Association members and Board of Directors, I strongly urge Congress to include a producer-controlled supply management program in the dairy title of the 1990 Farm Bill.

Thank you.

Nelson S. Gardner

Nelson S. Gardner
Representing the
Holstein Association of America
Brattleboro, Vermont

TESTIMONY

TO

THE COMMITTEE ON AGRICULTURE

U. S. HOUSE OF REPRESENTATIVES

HEARING ON THE 1990 FARM BILL

WASHINGTON, D. C.

JULY 12-13, 1989

SUBMITTED BY JAMES GRAUGNARD, PRESIDENT
LOUISIANA FARM BUREAU FEDERATION

Mr. Chairman, and members of the Committee, my name is James Graugnard, and I serve as President of the Louisiana Farm Bureau Federation. I am a farmer from St. James, Louisiana, where I produce sugarcane and soybeans. Thank you for the opportunity to submit to the committee the views of the Louisiana Farm Bureau Federation (LFBF) concerning proposals to be considered for incorporation in the 1990 farm bill.

It is the opinion of LFBF that the 1985 Food Security Act has generally accomplished its three major objectives: stabilizing financially stressed farm economy, enhancing export position for U.S. farm products, and preventing buildup of surplus stocks.

It is also the consensus of LFBF that the direction of the new farm bill should contain provisions and goals similar to the present act. Fine tuning may be warranted for the various commodity titles and these specific concerns will be addressed in the remaining portion of the testimony.

While Farm Bureau supports appropriate actions to be taken by Congress to address the budget deficit, we strongly believe that farmers have already borne more than their fair share of federal budget cuts and should not be abused by any future proposed budgets. Agriculture has already taken $30 billion in cuts during the prior administration. Producers of the respective commodities cannot sustain any further drastic cuts in the target and support prices.

In 1988 the former Secretary of Agriculture chose to use his discretionary authority as provided to him in the present farm bill and opted to maintain program payment yields (PPY) at the 1986 levels for the duration of the 1985 act. The majority of county ASCS offices have refused to accept production yield data since the freeze was enacted. We recommend that ASCS again start accepting updated production figures from producers. We further recommend that producers have the option of participating in a farm program using either the 1986 level or the average of the five years preceding the year in question, excluding the year in which such yield was the highest and the year in which such yield was the lowest. This is being recommended to accurately reflect the productive potential of the land in question.

If support (targets, loans, etc.) levels are based on production costs in the future, the total economic costs must be used in determining these levels. The total economic cost must account for the true cost of land to the production enterprise and contain a suitable level of return to capital investments and to the operator's labor and management.

LFBF is opposed to the "planting flexibility" concept whereby non-program crops would be allowed to be planted on a portion of a program crop's permitted acres. In Louisiana, many soybean producers have very few if any program crop base acres. These farmers receive no support price benefits. Farm Bureau believes that all commodities are interrelated and any change in supply, demand, or price of one affects the others. Program crop policies should not be developed at the expense of non-program crops and other commodities. Farm Bureau supports allowing producers the ability to interchange base acres among program crops as contained in the 1985 act as long as no crop base in increased more than 10 percent and the total crop base acres is not increased as a result of the interchange.

Payment limitations under the commodity loan, acreage reduction and disaster programs should be eliminated. If a limitation must apply to cash deficiency payments, we favor no limit lower than the present $50,000 limitation.

LFBF is opposed to making it mandatory for producers to purchase crop insurance. In other words, we do not believe that mandatory crop insurance should be a prerequisite to participating in a farm program or for the acquisition of a farm loan. The current program contains far too many inequities for this matter to warrant any possible consideration.

U. S. agriculture, if it is to be a growth industry, will have to figure out ways to continue to compete in growing world markets. This cannot be done if we are simply going to use lower levels of input in order to maintain current levels of output. If the concept of "low input agriculture" is to serve as a guide to practice, it must include the use of technology and practices that both sustain and enhance productivity. You cannot prematurely press for adoption of low input agricultural practices before either the science has been developed or the technology is available. The research on low input agriculture needs to define what is biologically feasible without being excessively limited by present economic constraints. If low input agricultural practices do not contribute to higher levels of profitable output, farmers will be the losers.

Congress should not wait for the progress under the ongoing multilateral trade talks before writing a new four to five year farm bill. The next farm bill should not be based on what we hope will happen in the GATT talks. We have to assume a continuation of what we have now in world trade and go on that basis. We further support a continuation of the export enhancement program to counter the export subsidies of the Europeans.

The following are specific concerns and recommendations for consideration during the 1990 farm bill debate for each respective commodity title.

Cotton

Until recently, the provisions of the cotton title had allowed all growths of cotton to be priced competitively for domestic and foreign delivery. However, several factors have combined to diminish the effectiveness of the cotton program.

The marketing loan is the backbone or key element of the cotton program. We are of the opinion that the marketing loan was the primary factor in restoring the U. S cotton industry's share of the world market in 1986 and 1987.

Currently, many people within the industry share the concern that the upland cotton program has not fully achieved its objective of assuring the price competitiveness of U. S. cotton both here and abroad.

LFBF strongly believes in the marketing loan concept as we have advocated a similar program for other major commodities. The Secretary of Agriculture has sufficient discretionary authority to adjust the AWP to whatever level he considers necessary in order to allow U. S. cotton to be priced competitively to domestic and foreign customers. The marketing loan concept can be made to work if the program is designed with adequate flexibility to react with a constantly changing market.

Rice

LFBF supports the maintenance of the rice title. We believe the 1985 Food Security Act has brought the U. S. rice industry to a point where it is competitive in international markets.

The marketing loan is the main provision of the 1985 act which has made us competitive in world markets, and we believe it must be continued. We also support the maintenance of a viable PL 480 program, as well as the maintenance of other government assisted export programs. These programs must also receive and maintain adequate funding if they are to be effective.

All provisions enacted regarding payment limitation plans should be structured to facilitate the efficient enactment of and to allow the full participation in the 1990 farm bill. We recommend that persons be considered as "actively engaged in farming" as determined by reasonable criteria. Just as landlords who receive a crop share rent are considered actively engaged, we believe waterlords who receive a crop share rent should also be considered actively engaged.

Soybeans

As stated earlier, LFBF believes program crop policies should not be developed at the expense of non-program crops and other commodities. Therefore, we oppose the growing of soybeans or any other oilseed crop on any set-aside acreage, permitted acreage, land diversion acreage, plant-back acreage, conservation reserve acreage, or any other acreage reduction programs from other crops. We also oppose government controls on soybeans.

LFBF supports the marketing loan concept for soybeans with a support level no lower than $5.02 per bushel. We also support an income enhancement program for soybeans and government assisted export programs including the PL 480 programs as are presently in force for soybeans and their by-products.

Sugar

We rigorously support the sugar program with levels set at no lower than present values of loan rates or market stabilization price.

Dairy

Louisiana Farm Bureau is in favor of maintaining an effective dairy price support program. We support the continuation of government product purchases and retaining import protections of Section 22.

Farm Bureau supports a strong and flexible federal order program. We recommend maintaining the present geographic Class I differential structure. We feel this is necessary because present price levels do not generate adequate year round fluid milk supplies for the southeast nor do they cover total cost of more distant milk during short seasons.

Production in the southeast was inadequate before raising differentials and production has still not increased relative to Class I sales or to the total U. S. production.

Farm Bureau opposes a single national order. Local and/or regional orders provide the best means of recognizing fluid milk markets.

Wheat and Feed Grains

LFBF generally supports the provisions of the 1988 Food Security Act as they relate to the wheat and feed grains programs. We support the target price concept and recommend a flexible loan rate to allow wheat and feed grains to be competitive in all markets.

In the last five to seven years, many farmers in Louisiana have started growing wheat and feed grains for the first time. We feel some of the provisions of the 1985 Food Security Act should be adjusted to address some of the inequities these farmers face. PPY levels have stayed at the 1986 levels and do not accurately reflect the yields that these farmers are producing. Therefore, we recommend that producers have the option of using their actual program yields of the past five years, excluding the high and low year. In cases with no crop history, producers' yields could also be determined by comparable soil type or nearby farm yields instead of using the 1986 PPY level. We also recommend that in determining base acreage for wheat and feed grains, that the zero years not be used in the calculation of base.

Summary

LFBF has been a strong supporter of the 1985 farm bill and believes that it has been very effective in allowing agriculture to rebound from many of the economic difficulties that prevailed in the mid-eighties. A new four to five year farm bill should contain provisions very similar to the present act. We believe that consideration of the previously outlined concerns will help to insure that the 1990 bill will be even more successful.

On behalf of the Louisiana Farm Bureau Federation, I would like to thank you for the opportunity to express these views for your consideration.

Statement of

PRODUCER STEERING COMMITTEE

By Fred Starrh, Chairman

To House Committee on Agriculture

on Review of Issues Relating to Formulation
of the 1990 Farm Bill

July 12, 1989

As Chairman of the National Cotton Council's Producer Steering Committee, I am pleased to submit this statement on the cotton provisions of the 1990 Farm Bill as adjusted by the Producer Steering Committee (PSC). The PSC is a committee of the National Cotton Council (NCC) comprised of 21 cotton leaders from across the Cotton Belt. Its purpose is to be a advocate for positions affecting cotton producers within the Council. Every major cotton producing state is represented on the committee. As a result, the PSC is the only national cotton-specific organization speaking for cotton farmers.

In a statement made to this Committee at a hearing on July 12, Mr. Bruce Heiden, President of the NCC, stated the farm program policy adopted by the Council. Because the industry has not had time to work out a unified position in all areas, he pointed out that there were some important farm program issues that the Council did not address. The PSC is confident that the NCC will be able to reach consensus on these issues at a later date.

At a recent meeting of the NCC's Board of Directors, the PSC was given authority to comment on provisions for new farm legislation on which the Council has no current position. These specific comments are included in this statement.

To begin with, however, the PSC strongly supports the NCC statement. The need to provide a consistently competitive price, the ability to offset unfair trading practices by others, the ability to assist some of our foreign customers with special credit, and the ability to expand markets abroad through promotion and trade servicing activities, are key issues for new legislation.

The NCC's statement emphasized a need for a continuance of the target price/deficiency payment provisions, as well as the current method for base acreage determination. We endorse these provisions, along with the option of using actual production history or current program yields as means for payment yield determination.

The PSC endorses the continuance of a recourse loan on seed cotton and the continued use of generic commodity certificates. Cotton producers are very concerned about environmental issues that will be addressed in the Farm Bill debate and urge that any new environmental regulations be based on sound research information.

As referenced earlier in this statement, the PSC also wishes to comment on other major areas of new legislation where the NCC has no current policy. Producers strongly support the continuation of a 10-month, non-recourse cotton loan, with an optional 8-month extension under the same terms and conditions as the current Act. The loan level should be based on a moving average of U.S. spot prices with the minimum loan of $.50 per pound. Loan repayment should be based on the provisions of the marketing loan to allow U.S. cotton to be competitively priced in domestic and export markets. The Secretary of Agriculture should have, and use, discretionary authority to adjust the Adjusted World Price (AWP) to ensure that a competitive price for U.S. cotton is maintained on a consistent basis. First handler certificates in sums and under such conditions as the Secretary considers necessary should be allowed for use for such adjustments.

Producers maintain that the current loan program is essential for orderly marketing of cotton to our customers. We commend the Secretary for currently proposing a rule that would allow authority for the discretionary adjustment, as mentioned above, in the current Act. This authority will further strengthen the effectiveness of our current program and should be carried over into new legislation.

The disposition of carrying charges for the loan extension under the current Act is also being addressed in the proposed rule. Producers have agreed with the Secretary's proposal to provide for accrual of carrying charges to be paid by the redeemer. We do not agree, however, with the Secretary's proposal to change the forfeiture rules by either requiring prepayment of storage or a waiver document of CCC liability for storage prior to extending the loan. We hope that an acceptable provision can be worked out regarding this issue. Producers are willing to accept changes as stated in the disposition of carrying charges for the loan extension to counter concerns expressed about this provision. With these concerns addressed, we strongly urge that the terms and conditions of the current loan be continued in the new Act.

Provisions for an acreage reduction program (ARP) should be continued with a maximum ARP of 25%. The Secretary should have authority to offer a paid land diversion when he determines that additional acreage needs to be diverted to reduce stocks to the statutory targeted level. Announcement of the ARP requirements should be made no later than November 1. The carryover target level should be expressed as a stocks-to-use ratio rather than specifying a fixed bale number, as in the current Act. Such ratio should not adversely affect producer income.

The "1/2-ARP" provision should be continued in new legislation. The Secretary should be required, however, to offer producers the option of participating in this program. This provision will allow producers, who otherwise would be outside the cotton program, to reduce acreage by one-half of the program requirement and receive loan eligibility benefits only. We believe that this will be an effective means of adjusting supplies when necessary.

CCC inventory resale policy, as provided for in the current Act, should be continued in new legislation. Resale of inventory stocks with generic commodity certificates should be at a rate equal to the higher of the current AWP or competitive bid.

These provisions, in addition to those comments presented by the NCC, will continue to provide cotton producers a sound legislative program that will promote competitive pricing of U.S. cotton at home and abroad. It will allow the cotton industry to respond to market demands in an orderly fashion and will serve to enhance the ability for producers to derive their income from the market.

We appreciate the opportunity to submit the producers' views on cotton provisions for new farm program legislation.

Statement of National Broiler Council

By
George B. Watts
President

Mr. Chairman, I appreciate the opportunity to present this statement on behalf of the National Broiler Council. Our members produce, process and market over 90 percent of the broilers, or meat type chickens, in the United States. They have a strong and vital interest in the development of future agricultural and food policy legislation.

Five years ago, a number of organizations representing non-supported commodities, such as the National Broiler Council, took a new interest in the writing of general farm legislation. We realized that we could no longer take the narrow view that the writing of a farm bill is an exercise that should involve only those supported commodities directly covered by the legislation. Prior to the 1985 Food Security Act, farm policies were developed on a commodity-by-commodity basis with little or no regard for the effect of those programs on animal agriculture or the consumers of our products.

The fact is that a very substantial majority of gross farm revenues in this country comes from commodities such as livestock and poultry that are not directly covered by farm programs. In addition, animal agriculture is the largest customer of U.S. producers of feedgrains. Over 60 percent of the cost of producing chicken is for feed ingredients -- primarily corn, other feedgrains, and soybean meal. Therefore, the producer of poultry and livestock have a direct economic stake in the development of farm policy.

The U.S. broiler industry has experienced an annual growth rate of approximately 5.5 percent over the past five years. During 1988, we produced over 16.3 billion pounds of broilers. We are very dependent on an adequate supply of feedgrains to continue this rate of growth. The broiler industry recognizes the fact that fair and stable returns to crop producers are necessary to help assure an adequate supply of feed ingredients at reasonable costs.

There appears to be a general consensus in the agricultural community that the 1985 Food Security Act has worked reasonably well and helped stabilize the farm economy while enhancing agricultural exports. The National Broiler Council concurs with this assessment.

We support the direction of the 1985 Food Security Act and urge the House Committee on Agriculture to continue to move general agricultural policy toward a more market-oriented position. We further urge the Committee to address the following issues in writing the 1990 Farm Bill:

a) Increased crop planting flexibility;

b) Reduced incentives to retire excess acreage; and

c) Continued export assistance programs for poultry and other commodities until such time as the underlying reasons for those programs can be effectively and adequately addressed in trade negotiations.

We commend the Committee for devoting the time necessary to hear the many voices involved in the process of developing farm policy. As new issues and provisions in the 1990 Farm Bill develop, we will welcome the opportunity for additional input.

FORMULATION OF THE 1990 FARM BILL

THURSDAY, JULY 13, 1989

House of Representatives,
Committee on Agriculture,
Washington, DC.

The committee met, pursuant to notice, at 10:10 a.m., in room 1300, Longworth House Office Building, Hon. E (Kika) de la Garza (chairman of the committee) presiding.

Present: Representatives Brown, Rose, Panetta, Huckaby, Glickman, Stenholm, Volkmer, Hatcher, Tallon, Staggers, Olin, Penny, Stallings, Nagle, Jontz, Johnson, Harris, Campbell, Espy, Sarpalius, Long, Dyson, Lancaster, Madigan, Marlenee, Hopkins, Stangeland, Roberts, Emerson, Morrison, Gunderson, Lewis, Smith, Combest, Schuette, Grandy, Herger, and Holloway.

Staff present: Bert R. Peña, staff director; Daniel E. Brinza, counsel; Vernie Hubert and Fred J. Clark, associate counsels; Joseph Muldoon, assistant counsel; Charles Hilty, minority staff director; John E. Hogan, minority counsel; Alice Devine, minority associate counsel; Glenda L. Temple and Francie Monaghan, clerks; Parks Shackelford, Greg Frazier, Timothy P. De Coster, James R. Lyons, Joe Dugan, Thomas H. Lederer, Cliff Humphrey, Allison Biggs, and Michael Mishoe.

OPENING STATEMENT OF HON. E (KIKA) de la GARZA, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

The Chairman. The committee will be in order. I might inform our guests that the committee has been working diligently on the budget implications as relate to this committee. We have to come up with slightly over $1 billion in savings for the Gramm-Rudman and what we call the reconciliation part of the budget. We do not have much areas left to work with because we are down to the bone and into the marrow as far as programs that this committee has jurisdiction over for reduction. I mention this only as a matter of apology for keeping you waiting. But we have been working this morning, and we are still not there.

Any of you that might have some funds available you would like to contribute? We will start the process of the hearing now and the House is in session. There will be votes in between. We will try and continue the hearing, switching members and the Chair, and continue the hearing. Also we will be having, when the members return, we may cut into the hearing to have a couple of legislative items that we have to handle. So these are very difficult and hectic days.

I might say that for your interest, the budget matter, one, it is fascinating; two, it is very challenging; three, it is quite traumatic. It is painful now at the level that we are having to reach for cuts. But this is what the American people want when they insist that we need to balance the budget and reduce the debt. It is very, very difficult and very painful work, and we are doing the best we can.

So we will start. The first panel we have includes Mr. Steve McCoy, North American Export Grain Association, accompanied by Mr. Karl Schlunk and by Mr. John Laesch, Continental Grain; Mr. Philip Johnston of CARE and Ms. Carol Brookins, World Perspectives. If all of you would come to the witness table, we will be very happy to hear from you at this time. We welcome back Mr. Steve McCoy, who was our numbers' man, our budget man, and so he knows quite well what we are talking about when we talk about the pain and the agony of reducing when the turf is very, very short or the field is very narrow. We are very happy to have him back here now that he is off the Hill and representing this prestigious association.

Mr. McCoy.

STATEMENT OF STEVE McCOY, PRESIDENT, NORTH AMERICAN EXPORT GRAIN ASSOCIATION, ACCOMPANIED BY KARL SCHLUNK, TOEPFER INTERNATIONAL, AND JOHN LAESCH, CONTINENTAL GRAIN

Mr. McCoy. Thank you, Mr. Chairman. It does seem like old home week to come back and find that these unfortunate budget problems continue to persist for the committee. I will attempt to be as brief as possible today. I thank you for the opportunity to testify.

The grain exporters come today to offer a fairly simple message that is well-known to the committee, and it is simply that the issue of agricultural exports is a vital issue regarding everything the committee does in 1990. Indeed, no single issue will have as great an impact on the future of U.S. agriculture and the success of the 1990 legislation as U.S. agricultural export performance.

Legislation which fails to recognize this reality and to effectively mobilize U.S. Government resources and programs in support of expanded exports will necessarily fall short of the objectives which you, the committee, may set for the future of U.S. agriculture. We come to the committee this morning looking to the committee's leadership. In particular, we are looking to the leadership of the committee to knit together the various aspects of today's farm and trade policies into a coherent, connected, and consistent whole.

The 1985 act came close to achieving that objective. However, even that legislation has been unable to stem the tide of policy conflict and inconsistency which relates to the effect of various commodity provisions of current law. Today's problems of rigidity of commodity programs, of unevenness of program benefits, of lack of market orientation, of inadequate production of commodities and demand in the market, all these problems pose a serious and continuing threat to the maintenance of U.S. trade competitiveness, consistent environment promoting overseas market development, and the future performance of U.S. exports in the markets of the world.

Policy consistency is always a difficult undertaking. We recognize the important contribution of the 1985 act in the direction of a consistent proexport policy. However, we also note that a common policy and common objective is needed now more than ever in U.S. agriculture. A bundle of inconsistent, conflicted commodity provisions, whether contained under a single statute or not, is not a substitute for a consistent unified policy approach.

Leadership is needed to see that this theme is reflected in the 1990 bill. We all stand assured that at your hand fair and reasonable treatment of commodity interests can result in overall benefit for U.S. agriculture as a whole. We know, as you know, that domestic policies set the parameters for export growth. The direction of domestic policy contained in the 1985 act must be maintained if U.S. agriculture is to prosper in the competitive environment it is likely to face in the future.

Loan rates should be maintained at below market clearing levels and efforts to increase loan rates strongly opposed. Acreage adjustment strategy should be reconsidered in light of the current supply conditions and with full appreciation given to the need to maintain maximum U.S. farm production as the best possible and most effective response to unfair foreign competition.

Reserve policies should be made more flexible. Finally, farmers should have greater freedom to make their own planting decisions and to rely on market signals to enhance their competitive position in meeting world and domestic demand. These steps alone will go some way toward assuring the continuation of the U.S. agriculture. However, competitiveness can only be guaranteed in the long run through adherence to a more general policy promoting real world demand growth.

The 1990 legislation must provide a consistent basis for long-term market development. Foreign customers of U.S. agricultural products need to be assured that the United States will produce in response to market needs. U.S. agricultural policy must be devised in light of the need to preserve the reliability of the United States as a dependable supplier to domestic and world markets.

Foreign policy inroads into U.S. agricultural policy which run counter to this principle must be eliminated. Government policies that have effectively created an environment of managed demand and supply should be ended. Congress should recognize the Government can and often does act as an anticompetitive element in the domestic and world agricultural marketplace. Government involvement in agriculture and trade should be kept to a minimum.

In the alternative, U.S. farm and trade policy should be designed to achieve maximum market orientation. We have some rather specific recommendations regarding the export provisions of the 1990 bill in the testimony. All are important. However, in the interest of time, let me mention only a few. The 1990 legislation should clearly affirm Congress' support for the administration's position seeking reduction in or elimination of unfair trade practices in the GATT negotiating process. The stated policy of the United States should be to disavow use of trade or production distorting subsidies and practices prejudicial to expanded world trade.

Current U.S. export subsidies should be by legislation limited in scope only to counter unfair export practices of other countries. The 1990 bill should clarify that current export subsidies of the United States are temporary and for strategic use only to achieve foreign policy objectives. Otherwise, the legislation should specifically rule out reliance on export subsidies as a governing principle of U.S. farm and trade policy.

Existing provisions of law relating to agricultural export embargoes and contract sanctity should be restated and where necessary strengthened to ensure clear-cut U.S. policy disavowing use of agricultural export embargoes except in extraordinary cases involving actual military conflict. Principal leadership in agricultural trade policy matters should be reserved for the U.S. Department of Agriculture.

The 1990 farm bill can improve on provisions of current law. The 1990 legislation should contain explicit language limiting foreign policy inroads into the establishment and execution of U.S. agricultural trade policy. Consideration should also be given to the development of an agricultural trade impact statements as a means of policing the impact of nonagricultural factors on actual U.S. agricultural performance.

Pending changes in the Export Enhancement Program arising from the current interagency review, legislation should be considered to add greater stability and transparency to the EEP program. The program currently operates in a manner prejudicial to U.S. farmers and grain exporters. Specific changes recommended by NAEGA are noted in the attached document to these pages which we provided the committee.

These include negotiation directly between buyer and seller; contracting for any class or classes of grain for shipment from any coast or coasts; switching of classes and grades of grains and coasts of shipment at any time prior to shipment; a single bonus to apply to all classes of wheat; public announcement of a list of EEP eligible countries; and elimination of certain anticompetitive provisions of current regulations.

Reforming the EEP program should be a priority. Without changes such as we propose, the committee will not be successful in eliminating the kinds of interagency abuses it has been critical of in the past. As I say, more detailed information of these recommendations are contained in the attachment to the testimony. NAEGA welcomes your review and comments regarding the recommendations made.

Consideration should be given to management improvements in the credit programs to eliminate redtape and provide for their expanded use. Review of the Targeted Export Assistance Program should also be merited in advance of the 1990 legislation to ensure that the program is cost effectively serving priority U.S. market development needs.

Public Law 480 programs should be reconfigured consistent with the recommendations of the ad hoc private sector committee on agricultural trade and foreign assistance of which NAEGA is part. In general, food aid programs should be required to serve more direct U.S. agricultural market development purposes. Consideration should be given to substituting for the current title I, Public Law

480 program a new GSN direct loan program providing concessional credit to lower income countries.

The Public Law 480 program is badly in need of reform. Committee development of the food aid provisions of the 1990 bill should take this fact into account. Farm and commercial considerations should weigh more heavily in the committee's thinking regarding Public Law 480. Cargo preference provisions of the 1985 act are recommended for repeal. The cargo preference provisions of the 1985 act remain a serious exaction on U.S. agriculture. Assistance to the maritime industry if deemed necessary by Congress should be provided in some other manner than by reservation of cargoes in violation of accepted principles of competitiveness and marketing efficiency.

These recommendations and others contained in this testimony are necessarily provisional and general given the early stage of debate of issues pertaining to the 1990 legislation. We hope to work together with the committee to narrow their scope so they may be suitable for your consideration next year. More than in any previous time in recent history, the opportunity exists next year to fashion a single, integrated, coherent farm and trade policy for the United States that may serve U.S. agriculture into the next century. Ground-breaking work in the direction of a market-oriented competitive U.S. agriculture was signaled by the 1985 Farm Act. Building on the strengths of that bill and improving it where necessary, this committee can have a dramatic impact on the domestic and international environment in which U.S. agriculture must operate.

We have suggested our preferred route for achieving U.S. agricultural competitiveness. We now look to your suggestions and actions. The U.S. export grain community stands ready to assist you in any way we can to make your burden next year less onerous. We thank you for this opportunity to testify and look forward to future dialog in support of a strong, profitable, and market-oriented U.S. agriculture.

[The prepared statement of Mr. McCoy appears at the conclusion of the hearing.]

Mr. STENHOLM [acting chairman]. Thank you, Mr. McCoy.

Next we will hear from Mr. Philip Johnston, executive director, CARE, representing the Coalition for Food Aid Policy.

Mr. Johnston.

STATEMENT OF PHILIP JOHNSTON, EXECUTIVE DIRECTOR, CARE, ALSO ON BEHALF OF THE COALITION FOR FOOD AID POLICY

Mr. JOHNSTON. Thank you, Mr. Chairman. On behalf of CARE and the Coalition for Food Aid, we welcome the opportunity to provide this testimony. We have submitted it in writing, and I ask you to accept it in that form.

Mr. STENHOLM. Without objection.

Mr. JOHNSTON. We commend the committee for the work it has done on behalf of the food aid community and would like to highlight the following several points that are contained in the testimony. The testimony strives to draw to the attention of the committee three major points.

First, we ask your continued support for the minimum tonnage of 1.9 million tons for title II. We ask for your support for the continuation of monetization, but urge the committee to look at the bureaucratic congestion that makes this particular instrument very cumbersome to use. If those bureaucratic entanglements were untied, considerably more use could be made of this facility. And we ask the committee to look at the possibility of multiyear approval of programs which would certainly lessen the manpower we have to make available to these programs and the cost thereof.

In the view of the coalition and CARE in particular, there is a need for more food aid, not less. There are voices within the community and within the U.S. Government that advocate less food aid. But as we interpret the conditions of the Third World, particularly now impacted on by indebtedness, we see tremendous need in the future to which food aid as a resource within the development process is urgently needed in larger quantities, not less. Specifically, we view the endangered environment, the degrading of that environment in the Third World as heightening not lessening. We see the education of children, particularly girls, as increasing in the importance of the development process and the future of Third World countries, but unfortunately the number of children being educated in the Third World is dropping and declining, particularly girls.

And third, the net effect of indebtedness of most of the Third World is clearly having an overall negative impact as the quality of life in the Third World declines. Generically, however, the overriding concern is that of food security. If we could somehow provide a food security network for most Third World countries, stability of a sort would be obtained. This is the goal of the Coalition for Food Aid: To provide a system that is going to help with food security throughout the Third World, and this committee and what it provides through title II is critical to that program.

We thank you for the opportunity to present this testimony and look forward to answering any questions you may have.

[The prepared statement of Mr. Johnston appears at the conclusion of the hearing.]

Mr. STENHOLM. Thank you, Mr. Johnston.

Next, Ms. Carol Brookins, president, World Perspectives, Inc.

STATEMENT OF CAROL BROOKINS, PRESIDENT, WORLD PERSPECTIVES, INC.

Ms. BROOKINS. Thank you, Mr. Chairman. I appreciate the opportunity to testify this morning on the subject of agricultural policy as we begin this very important work in formulating the 1990 farm bill. And I am heartened to say that despite the hardships of last year's drought and certainly this year's weather problems and drought, American agriculture remains on the upswing. Yet we face continued challenges and among these are the fact that we are in the middle of multilateral trade negotiations to reform world agricultural policy in the Uruguay Round.

Additionally, as Mr. Johnston has said, many developing countries remain in very serious economic recession and have major debt problems, and these we know are the countries who have the greatest potential to expand their consumption of food products. Macroeconomic imbalances continue to threaten the longest postwar recovery in our history. Furthermore, agriculturally, environmental policies may alter seriously the way that we produce, process, and market food in the future, and it will affect the cost of production and our relative competitiveness.

And finally, the budget deficit reduction will force us to determine how much today we can afford to spend on our farm sector and to choose those priorities carefully. I think all these questions have to be addressed in the 1990 legislation, and that we need to move forward on the approach of the 1985 Food Security Act toward greater market orientation and export competitiveness.

But there are considerations that I would like to raise in this regard. The first being the issue of price supports. The temptation today in the face of higher market prices is to freeze or raise support prices because market prices are above those levels. This would be dropping anchor, as far as I am concerned, rather than staying the course. It would be a serious mistake if for budget reasons we send a signal to our foreign competitors that loan rates will be raised. It will not only create a production stimulus overseas, but it will seriously impair our negotiating position in the Uruguay Round.

Second is our Acreage Reduction Program. Through our own massive acreage reduction policy between 1985 and 1988, we took the unilateral supply adjustment in cereal production for the world. And history has shown over the past two decades that every time we take the unilateral adjustment, world market prices rise and other countries increase their production and benefit at the expense of our farmers.

Yet language in the 1985 law mandates levels of U.S. acreage reduction increasing tied to carryover stock of specific commodities like wheat and corn. We are, through this unilateral automatic supply management, handing production gains to our export competitors and severely harming our long-term production as a world trader. Additionally, the way we run our ARP's raises our own production costs and further discourages development of nontraditional domestic uses for our farm output.

Third, we need to improve production flexibility which seems to be a generally accepted concern today. Real market orientation is not just providing export subsidies to compete with foreign export or subsidies. It means giving each of our farmers back the independence that he or she deserves in making production decisions based on their individual assessment of market opportunities and risks. Our farmers are good managers and they know what makes good market sense. It may be trite to say it, but I fully believe that it is time to let them farm crops and not farm programs.

Revisions in this area could include considering an adaptation of the former Normal Crop Acreage Program, and additionally we need to consider provisions that would permit production of nonprogram and nontraditional crops.

Fourth, we need to better consider the export impact of domestic programs. In the 1985 Food Security Act, you included a trade policy declaration, which I believe was a very significant commitment from the Congress and I think it was successful. The proof of the pudding is with the contribution of U.S. agriculture to the U.S. trade balance this year of $18 billion versus only $5.4 billion in 1986. However, it may be time now to move a step further and put our own agricultural programs to the test.

I am suggesting today that the 1990 farm bill mandate an export impact statement to accompany all domestic farm policies we enact which cover commodities we trade internationally. An export impact statement would be an important start in focusing directly on the potential cost and benefits of policy choices in terms of lost or gained export opportunities.

Fifth, I would like to discuss briefly food aid reliability. Not only in the way we work with title II in terms of our grant program but the way we operate Public Law 480, title I loans in the future will be important at a time when higher purchasing power throughout the developing world will be crucial in determining whether our agricultural exports will expand or contract.

If we want Public Law 480, title I, to be a long-term assistance program that enhances economic progress and builds markets, we have to be a reliable supplier. In this context, we may need to establish commodity minimums rather than fixing the title I budget as a dollar amount annually. We may also need to consider multiyear commitments of food aid for countries seriously working on structural economic reform under approved World Bank/IMF programs.

Additionally, I believe that our food aid self-help requirements in a country should be linked only to food system specific policies.

And sixth, is the issue of multilateral trade reform. I believe we all want the legislation enacted in 1990 to contribute to our goal of negotiating equitable and substantial reform in agricultural trade policy under the Uruguay Round. I have heard a lot of Members of Congress express concern about the Uruguay Round proposal because they say they do not want to let foreigners make our domestic policy.

In truth, foreigners for years have been making our domestic policy. This has been apparent in the way that we have had to consistently adjust our production downward to reduce surpluses and save money because foreign competitors were continuing to expand and then subsidize their surpluses in the world marketplace.

In other cases, foreign buyers have had unfair trade barriers that prohibited our products from entering their markets. If we succeed in the Uruguay Round, foreigners in a sense will be making our policy, but for the first time we will also be making their policy. They will no longer be able to unfairly harm our farmers' competitive position. The 1990 farm bill will be sending an important signal to the other GATT members. I hope that the new law will include language stating your full support for our negotiating objectives as well as your commitment to revising U.S. policy accordingly if an equitable agreement is concluded.

In concluding, Mr. Chairman, governments cannot legislate stability in the dynamic world of commodity production and consumption. Governments can, however, legislate policies that help to manage risk. A risk management policy is warranted in agriculture because our food supply is a vital contributor to our national security. The way we manage risk and provide a safety net will determine our future economic success.

More importantly, it will determine the future for those Americans who dedicate their energies and resources to feeding and clothing a growing number of people who depend on them in today's and the future's global village. Thank you, and I would be glad to answer any questions.

[The prepared statement of Ms. Brookins appears at the conclusion of the hearing.]

Mr. STENHOLM. Thank you, Ms. Brookins.

Mr. Holloway.

Mr. HOLLOWAY. No questions.

Mr. STENHOLM. Mr. Stallings.

Mr. STALLINGS. No questions.

Mr. STENHOLM. Mr. Roberts.

Mr. ROBERTS. I have about 16, Mr. Chairman, but I will yield.

Mr. STENHOLM. For you, we have time for 5 minutes' worth of questions.

Mr. ROBERTS. Thank you, Mr. Chairman. I want to thank the members of the panel. I apologize for being late, but I want to especially thank you, Carol, for your emphasis in regard to the Acreage Reduction Program and World Perspective statement here, and that is not a plug, Mr. Chairman. That is just an observation. I want to thank you for your statement in regard to the issue of the environment. We have been discussing budget problems. We are just now going into reconciliation. We are discussing export policy. We are discussing GATT, and these are very important issues.

And in looking over the statements of the various farm organizations and the various panel members, I find myself a little distressed to see some of the same speeches that I have read for 10 or 15 years or maybe even longer ago than that, and it is easy reading. I mean we know it by heart. I would like to compliment you on trying to look forward in regard to these environmental issues that we must face be it the hormones in beef, or the ground water or food safety. My personal opinion is that is the issue that will affect the farmers' pocketbook and our competitiveness and our productivity more than any other issue that we will face during this year.

You and I have talked about that at some length. And I think without question there is going to have to be an environmental section to the new farm bill. And we will have to address it. Mr. Stenholm and I have talked about that at great length with many farm organizations and many people similar to those who are now serving on the panel. So I simply want to commend you for your remarks in that regard and hope that we can work through that and would yield back to the chairman.

Mr. STENHOLM. Mr. Brown.

Mr. BROWN. No questions at this point, Mr. Chairman.

Mr. STENHOLM. Mr. Marlenee.

Mr. MARLENEE. Mr. Chairman, I have no questions at this time. Thank you.

Mr. STENHOLM. Mr. Johnston, in your own words, what kind of farm policy do you believe would best deliver the quality of food that you say is so vitally needed? Has the 1985 farm bill been effective? Do you have any concerns about supply of food to meet growing needs?

Mr. JOHNSTON. I share the concern of Mr. McCoy that the Preference Act that gives cargo leaving this country an inordinately high price is unfair in a free enterprise system. We could do a lot more with what we are provided with if it did not cost so much to move it. However, with respect to the farm bill, what I would like to see is an increase in title II. We are not impacted that much by title I, but we certainly are by title II. And as we look at the future, we see a significant increase in destabilization happening in urban areas that are growing in the Third World by leaps and bounds. And if there is a price to be paid, it will be paid at the farm gate by the producers in the Third World as they try to keep larger and larger numbers of people in urban areas quiet or peaceful.

Therefore, in a global farming sense, if America can provide the food that is going to be needed until our world reaches population stability, we are going to have a world of peace. To the degree that food is short, to the degree that our agriculture or the agriculture of the West cannot provide the quantity of food that 80 percent of the people in the Third World are going to need, we are going to have a world which is very close to being destabilized.

Mr. STENHOLM. Mr. Johnston, have you testified on the cargo preference issue before other appropriate committees of the House?

Mr. JOHNSTON. Yes.

Mr. STENHOLM. You have testified?

Mr. JOHNSTON. CARE has. I personally have not, but CARE has, and every opportunity we get we make our voice known or our position known.

Mr. STENHOLM. Mr. McCoy in your opinion, would a freeze in funding at last year's level be neutral, harmful, or positive for the EEP?

Mr. MCCOY. Well, frankly with the Export Enhancement Program and the purpose for which it should be used to meet unfair trade subsidies of the European Community primarily, the optimal policy would be to have no funding requirement whatsoever for the program, to make it discretionary with the Secretary to allow him to contract or expand the program as market conditions dictate. Quite frankly, from year to year you do not know what level of subsidy is going to be necessary to meet competition in the international marketplace.

So my feeling on it would be that placing a limit on the program is not the best way to go, but in the current context in all likelihood if the funding level was equivalent to what it is this year, this might not create difficulties as far as meeting unfair competition at the current time.

Mr. STENHOLM. Ms. Brookins, one final question for you. You had a very detailed statement and some very concrete suggestions for policy which I very much appreciate. You make the statement in your last paragraph that governments cannot legislate stability in the dynamic world of commodity production. But you also say government can legislate policies to help manage risks.

Some have suggested—not any of you at this table—but as some have suggested that the answer is to remove Government from the role of supporting agriculture. What would be the impact if we made significant changes in current policy? If the producer is looking at getting less, what is he going to do?

Ms. BROOKINS. Well, there is a long detailed question as to whether the producer would be getting less or whether he would be getting more and whether he is planting certain crops because he does not have any choice due to the program benefits of one crop versus another. Maybe the issue, if we are looking over the long term—and I would like to preface this by saying I do not think we should be looking to make major changes in 1990, I think it is premature—a lot depends on what happens in the multilateral context because we should not be making changes on our own that totally ignore what other countries are doing.

But if we are going to make changes, I think what we need to be looking at is what it is that we are trying to manage, what risks we are trying to manage, what we are trying to protect. Is it farm income? Is it the equity base of agriculture? Is it the price of a specific commodity? Is it the value of land? And I think that we have not always taken this into consideration—we have followed the route of continuing to support specific commodities, which we started back in the 1930's at the time of the Depression, when 50 percent of the population lived in rural areas and 25 percent lived on farms, and this was the easiest way to transfer money in.

So I guess my question to you, Mr. Chairman, is whether we are trying to protect equity, whether we are trying to protect income, or whether we are trying to protect the price of a specific commodity. And I think these all need to be considered when we begin, if we begin major program reform.

Mr. STENHOLM. Briefly, Mr. Johnston, do you have any comments?

Mr. JOHNSTON. Mr. Chairman, I hope that the Government continues to support agriculture because I believe in the 1990's we are going to go through an enormous set of roller coaster rides if, in fact, there were no cushioning effect provided by Government. The degree to which environmental degradation is going on at 1,000 acres of loss of forests per 20 minutes, and that is every single 20 minutes of 24 hours a day, is going to affect weather around the world. Until we can bring the environment under control we need cushioning, and we need the Government to provide that cushion.

Mr. STENHOLM. Thank you. Mr. Marlenee.

Mr. MARLENEE. Mr. Johnston, I assume that you do not support a let-burn policy then in our national forests and national parks?

Mr. JOHNSTON. No, there is a significant difference between——

Mr. MARLENEE. Not really. You destroy the trees. Just as surely as if you clear-cut them. But let us get back to the agricultural policy.

Mr. JOHNSTON. OK.

Mr. MARLENEE. Apparently, you support the agricultural support programs, the producer benefits that are in the agricultural programs. We are facing right now, as the chairman indicated, Mr. de la Garza, as Chairman Stenholm indicated, Pat indicated, the rest of us are sitting trying to bring the total budget of the U.S. Congress under control. Our part of that is to take a cut of some $600 million, something like that. Given a choice between income benefits or producer benefits or capping the conservation reserve which takes land out of production at 30.6 million, which would you chose?

Mr. JOHNSTON. With all deference to the question, I am not qualified to provide you guidance on that highly technical and important question. My frame of reference is partially within the United States and its agricultural endeavors, but much more abroad. So forgive me for——

Mr. MARLENEE. Mr. Johnston, I will accept that. Thank you.

Mr. STENHOLM. Mr. Roberts.

Mr. ROBERTS. I apologize to my colleague for taking additional time. Mr. Johnston, my ears perked up in what I think you said in regard to the cost of shipping, in regard to the business you are in, the very important business that you are in. Were you referring to cargo preference?

Mr. JOHNSTON. Yes.

Mr. ROBERTS. And what also prompted my question to you now is the comments by the chairman. Do you get the Government out of farming? Well, the Government is not going to get out of farming because we also have what I call market interference policies that really shape the very difficult playing field for the producer, that is, every third foggy night on the floor of the House we have the people who strongly believe in a U.S. flagship fleet and a strong merchant marine trying to subsidize that very beleaguered industry, and those poor seaman who only earn $72,000 a year for 6 months of work, to help them out, if we please, to try to build up that industry. And they take it out of the hide of the farmer and rancher and they wave banners and talk about buy America and help the U.S. merchant marine.

Lord knows I am for the merchant marine. Please tell Helen Bentley I am for the merchant marine. But I am tired of it. Now Mr. English and myself, Mr. Stenholm and others fought that fight in the farm bill to say no commercial sales. And for goodness sakes let us do not do with foreign assistance, and for goodness sakes, let us not do with it CARE, and people who really are in need. And we lose.

There are more folks, strangely enough, all around the coast in terms of boats than there are in the heartland. I found that out the hard way. And we can make speeches and we can make all sorts of comments that we want, and we lose. Why cannot we approach this by working with the merchant marine folks, and if we are going to have a strong merchant marine and a strong U.S. flagship fleet, and it needs a subsidy, if in fact that is the case, let us do it up-front.

Let us take it right up-front to the Department of Transportation, or whatever, Department of Defense. We build our own ships in regard to the defense industry. I do not know what that takes. I am not that much of an expert in the field. The Maritime Commission has come out with an excellent study showing that we are in a real slide in this whole area. It would take considerable money.

Chairman Brown and I have discussed this. I think we are thinking about at least asking the General Accounting Office and the

Office of Technology Assessment to take a hard look at this and say what would be the best way to, in fact, subsidize the U.S. merchant marine. But quit taking it out of your hide and my farmers' hide and the ranchers' hide and so we do not have to fight that fight and say the same speeches on the floor of the House almost every session of Congress. Would you agree with that, and your answer is yes.

Mr. JOHNSTON. Absolutely.

Mr. ROBERTS. That sort of sparked my interest, Mr. Chairman, and I have a lot of blood pressure on that issue since we lost the fight in the House as of last week. Mr. McCoy.

Mr. McCOY. Mr. Roberts, if I could just comment briefly on that because as an outsider I felt bruised along with the members of this committee on the outcome of the vote on the Torricelli provision last week or several weeks ago. It seems like last week because frankly yesterday we fought this matter again on the Senate side in the Senate Foreign Relations Committee. And I think the suggestion you make is commendable. Frankly, the maritime industry has never been willing to deal openly and honestly about this issue with agriculture.

They recognize that cargo preference is an exaction on the U.S. producer. They recognize that it is an inefficient way of moving commodities overseas. They recognize that they are in effect hiding the benefits to their programs through providing funding through the agricultural budget. But they do not want the maritime subsidy to be a visible separate entity. They wanted it associated with agricultural programs. And while I support 100 percent what you are doing, I think a GAO study or an OTA study would be an excellent way perhaps of joining this issue a little bit more fundamentally.

Frankly, and unfortunately, I think that agriculture has got to consistently stand up for its rights time and time again on this issue. I regret that even in the instance of the compromise raised in 1985 issue on this issue that the action that the maritime industry undertook only 1 month ago in this House on the Torricelli amendment indicates that their commitment to that agreement is highly suspect.

Mr. ROBERTS. Well, they breached the compromise.

Mr. McCOY. No question about it.

Mr. ROBERTS. And as I say it happens and will happen again. You know this is the first—not the first chapter—it is about the third chapter, same verse. Could be better. You know probably will be worse. That is the point. I think if it is in our national interest to have a strong U.S. flagship fleet, which I think we all agree, we ought to do it up-front, and I think we need to marshal our facts and quit trying to holler back at one another. We will stand up and fight and we have, but we lose. And I am tired of losing.

Mr. BROWN. Mr. Chairman.

Mr. STENHOLM. Mr. Brown.

Mr. BROWN. Could I ask unanimous consent that the gentleman have an additional 2 minutes?

Mr. STENHOLM. Yes, without objection.

Mr. BROWN. Would the gentleman yield to me?

Mr. ROBERTS. I would be delighted to yield to my learned colleague.

Mr. **Brown**. The gentleman is correct in his statement that I would join with him in requesting an analysis of this situation with regard to cargo preference and general subsidies to the maritime industry. In this regard, I think we should apply the same principle that we apply in many other situations: That we should have full disclosure, openness, transparency, whatever you want to call it, of any of the costs involved in programs which we undertake. It is the same principle we apply to congressional income, for example: You can take crooked money, but you have to disclose it fully. [Laughter.]

And we certainly should do that. Now I would just like to make this slight addition. With regard to the needs of the maritime industry, I am second to none in my desire to have us have the best, most efficient, most productive maritime industry in the world. And I am willing to support any program that will constructively achieve that goal. Cargo preference does not seem to have achieved that goal, and I think we should be looking at other means to accomplish that, and in that light, I probably would like to include in our request to OTA that they review the technology aspects of improving efficiency and productivity in the maritime industry. There are new methods of shipbuilding. There are new materials. There are new energy, power sources, things of that sort, which could give us a leg up in becoming competitive, and which for one reason or another this country has not done. And I think we should take that step as well as the step of identifying precisely just what the costs are.

Mr. **Roberts**. I thank the gentleman for his contribution. Mr. Johnston, as you see, you touched sort of a sore point. But I would encourage you. To my knowledge, nobody—I went down the laundry list here of the important and pertinent organizations that are affected by this during this debate—and I would encourage you when these issues do come up, stand tall with us in this effort, and would yield back, Mr. Chairman, with the only admonition that if it's all the same with you, we would like to plant that wheat in September as opposed to July.

Mr. **Stenholm**. I guess that would be all right. [Laughter.]

Mr. **Sarpalius**. No questions.

Mr. **Stenholm**. Mr. Combest.

Mr. **Combest**. No questions.

Mr. **Stenholm**. No further questions. We thank you very much for appearing today and for some well thought out, helpful statements.

We call panel two. Mr. Bergland, Mr. Jones, Mr. Greenstein, and Ms. Haas.

Mr. Bergland.

STATEMENT OF BOB BERGLAND, EXECUTIVE VICE PRESIDENT, NATIONAL RURAL ELECTRIC COOPERATIVE ASSOCIATION

Mr. **Bergland**. Thank you very much, Mr. Chairman, members of the committee. There are two parts to my statement today, one of which I have to insert a disclaimer because I am going to wear my hat as the former Secretary of Agriculture and get into some specific recommendations on the farm bill that do not derive from the association which I represent, the National Rural Electric Cooperative Association.

Mr. **Stenholm**. If you would yield for just a moment?

Mr. **Bergland**. Yes, sir.

Mr. **Stenholm**. I think you could probably wear three hats today, and you can change them any time you get ready.

Mr. **Bergland**. All right sir.

Mr. **Stenholm**. As a past member of this committee, you can change them at your will.

Mr. **Bergland**. Thank you, sir, and the second part will deal briefly with some rural development logic, and on that one, I do wear my rural electric hat because we are vitally interested in the issue of rural community and economic development.

On the farm bill itself, Mr. Chairman, I think it is time to terminate bases and allotments except perhaps for tobacco and peanuts which are rather peculiar circumstances. But I do know—we have a farm in Minnesota—and I do know that my son-in-law does plant crops to protect acreage history and so do my neighbors and so do most people with which I am familiar, even though it makes no sense. Even though they would be better off planting an alternative crop in some cases because of market conditions or weather conditions, they are bound and determined to plant to protect history.

I think that the basis and allotments which were established years and years ago have tended to freeze crops in regions even though they could do better with alternatives, but again it is a means of protecting or providing some insurance. And so the traditional base and allotment program, I think, has served a useful purpose over the years, but the time has come to put an end to it, and what I would strongly recommend in its place is that we use the total cropland figures for the farm as the basis. Those farm cropland numbers are on record at the ASCS office. And in a year in which an acreage reduction is required, the land which is taken from production should specifically be the most fragile land on the farm, the least productive land on the farm, and the payment made for that land should be established according to its productivity as determined by the ASCS county committee.

This will require some on-site inspection, but this is a manageable proposition. Within the permitted acreage of the farm, then, the family would be entitled to plant any crop or combination of crops that makes the most sense given local markets, given other circumstances including weather, which, of course, is a very difficult element. If there are to be target price payments made—and incidentally I should back up and say any land which is diverted should be paid for. That should be the conserving land and paid for for the conservation values derived to society.

If there are to be income transfer payments made, they should be made on the basis of the crops planted. They probably need to be limited and scaled in some fashion. I have long believed that we could scale those payments, making higher payments on the first 5,000 bushels and fewer on the rest for certain social reasons, which I am going to get into later. I do believe that we need to maintain some kind of a national grain reserve scheme. The world's grain crop is almost never like we predict. The world's grain crop is about 85 percent rain-fed, although irrigation is increasing. And there is probably a 40 to 80 million ton swing in a good year and a bad year depending on whether it rains or it does not.

The economic shock caused by these weather patterns is enormous, and unfortunately most of it falls back in the United States because we are the world's leading and principal exporter, and so there needs to be some kind of a shock absorber in place to deal with that phenomenon.

Finally, I want to get into the business of large farms/small farms. When I was at USDA we launched a study we called "A Time to Choose." It was designed to look very specifically at farming by size, by category, and by community rather than dealing in averages. And I want to, for the record, use the numbers that were produced from the end of 1987 in which we had 2.2 million farms in the United States of which 600,000 had an average net income of $78,000 a piece. These are mainly engaged in the production of perishables and we are seeing very heavy concentration in cattle and calves, for example. Today half the cattle and calves come on farms that have a gross farm sale of over a half million dollars.

Cotton and cotton seed, about the same. Seventy percent of the vegetables and sweet corn and melons come on farms with sales of over a half million dollars. And so it goes on down including poultry, nursery crops, fruits, nuts and berries, et cetera, and the hog and pig business is rapidly being concentrated in these large farms.

On the other end of the spectrum, we have 1.5 million farms that had an average net farm income of $500. And if it had not been for jobs available in that community, those people would have been driven from their home. It is clear that the large farms benefit proportionately greater than the small farms from farm programs, and we need to take that fact into account as we deal with commodity policy.

We are seeing people move from, say, western Iowa to eastern Iowa, from western Kansas to eastern Kansas, and it is largely because livestock is so heavily concentrated that people who used to have a corn-hog-soybean rotation have lost the pigs to competition, and they are down to grain and cannot make a go. They do not have enough land. The grain prices are unstable. Debt is too heavy. It is an unprofitable business and so they cannot find work. They got to leave, and we are seeing that happen in the rural electric areas all over the United States. People are leaving from rural communities in about 20 States and part of it is due to the changing structure of agriculture.

We do not believe that this 1.5 million smaller farms, who are really largely part-timers, are ever going to get on their feet in a large way as a group. Now some of those, of course, will move from the small farm, part-time farm category into a large commercial scale. That is fine. But we are never going to see all of these farms become fully self-sufficient from agricultural income. And underscoring the need for an economic development program that provides jobs in rural places and we in the rural electric cooperatives are working hard identifying those opportunities that are mainly in value-added industry. Mainly it is small business. Mainly it is building on existing industry. It all starts at home, or does not start at all.

But I must say that if there is not a Federal role in rural development, most of these communities are going to just dry up and blow away. And we stand ready, willing, and able to help you in this committee in considering these matters. Thank you, sir.

[The prepared statement of Mr. Bergland appears at the conclusion of the hearing.]

Mr. STENHOLM. Thank you, Mr. Bergland. Next, Mr. Jones.

STATEMENT OF BENJAMIN A. JONES, JR., ASSOCIATE DIRECTOR, AGRICULTURAL EXPERIMENT STATION, UNIVERSITY OF ILLINOIS AT URBANA-CHAMPAIGN, ON BEHALF OF THE NATIONAL ASSOCIATION OF STATE UNIVERSITIES AND LAND-GRANT COLLEGES

Mr. JONES. Thank you, Mr. Chairman and members of the committee. I appreciate the opportunity to appear before you to discuss an issue of major importance to our Nation, the reauthorization of title XIV, the National Agricultural Research Extension and Teaching Policy Act of 1977, as amended in 1981 and 1985. I am a representative of the division of agriculture of the National Association of State Universities and Land-Grant Colleges. The division represents the administrators of programs of teaching, research and extension in agriculture, home economics, forestry, and veterinary medicine that are authorized through the Federal-State partnership described in title XIV.

In 1985 the Congress reaffirmed the need for a public supported science and education system in agriculture. The Congress also made a commitment to continue providing for strong base-funded programs of agricultural research and education located within the land-grant universities, a system that is capable of addressing local, State, and national problems by carrying out basic, developmental, and adaptive research and technology transfer.

Today this research and technology transfer system helps provide the U.S. consumers with a high quality, nutritious, safe food supply that requires the lowest percentage of disposable income of the citizens of any country in the world. Truly the public, which has invested in this system, is the beneficiary of the returns on that investment. Therefore, the division urges the Congress to reaffirm its commitment and to reauthorize the basic elements of title XIV with updating to address issues of current public concern. Let me suggest five broad categories for your consideration for updating.

One, quality of the environment including water, air, and land. The public has expressed concerns about the quality of their water, the excess use of chemicals on agricultural land, and changes in the global atmosphere. The existing Federal-State research and technology transfer system is imminently qualified to address these concerns because much of the research and education needed is situation and site-specific and must be conducted at many locations throughout the country.

Long-term multidisciplinary systems research and outreach programs are needed as well as competitive grants that can elicit the minds of the best scientists, irrespective of their affiliation. The land-grant university system, with USDA and other agencies cooperating, provides the opportunity to draw upon many disciplines to address these concerns. No other source of scientific talent is so readily available to address the issues. The committee may wish to develop a new subtitle or subtitles for title XIV to accomplish this.

Two, competitiveness in world markets. Today, the United States must compete in a world economy. To do so, it is essential that basic, applied, and developmental research and outreach programs be provided to producers so that the United States will remain competitive in world markets. Otherwise, agriculture will lose out to other nations. Also, the United States has the potential to develop value-added products that may provide an opportunity to enhance the U.S. balance of trade. A revision of existing subtitles or a new subtitle of title XIV may be needed to affirm the intent of the Congress for agriculture to remain competitive and to gain a greater return from its agricultural products by adding to their value before sale.

Three, revitalizing rural America. Large portions of rural America are under stress to maintain their infrastructure and their vitality. Such issues can be addressed by socioeconomic research and education using the diversity and expertise of major socioeconomic departments and land-grant universities as a resource. We recommend that the Congress identify socioeconomic studies as a sector for competitive grant funding.

Four, human resource development. A major long-term challenge for agriculture in the 1990's is the development of a pool of technically trained persons to keep the industry competitive internationally. Additional funds are needed for support of graduate students in the life sciences, engineering, and agribusiness to train the next generation of leaders. A revision of title XIV should recognize this need.

Five, research facilities. Today the physical facilities housing our educational programs are in great need of being enlarged and upgraded. A reaffirmation of a commitment of a joint Federal-State program of updating the physical facilities for agriculturally related programs such as described in the Research Facilities Act would strengthen the entire educational program.

Mr. Chairman, the division of agriculture is pleased with the basic soundness of existing legislation contained in title XVI as amended. The changes proposed by the division would strengthen the national agricultural research and technology transfer system that undergirds this Nation's food and fiber production, processing, and distribution system. I have provided the committee with a more detailed statement for your use, and I commend it to you. The association will be pleased to work with you as you consider changes in the law. Thank you.

[The prepared statement of Mr. Jones appears at the conclusion of the hearing.]

Mr. STENHOLM. Thank you, Mr. Jones.

Our next witness, Mr. Greenstein.

STATEMENT OF ROBERT GREENSTEIN, DIRECTOR, CENTER ON BUDGET AND POLICY PRIORITIES

Mr. Greenstein. Thank you. I am Robert Greenstein, director of the Center on Budget and Policy Priorities which is a nonprofit organization conducting research and analysis primarily on a range of policy issues affecting low income families, and that has an emphasis on the food assistance programs. The center's work is supported by foundations.

I would note that prior to starting the center, I had the opportunity to serve in USDA under Secretary Bergland, first, as an assistant to him and then as Administrator of the Food Nutrition Service, and it is a great pleasure to be at the same table with him again today.

I am going to talk, Mr. Chairman, primarily about the Food Stamp Program today. Hunger and poverty, unfortunately, remain at quite high levels in our country. In 1987, the last year for which we have the census data, was the fifth year of an economic recovery, but the poverty rate was higher than in any year of the 1970's, including the deepest recession years of that decade.

Although the unemployment rate in 1987 was back to the same level as in 1978, 8 million more Americans were poor. New census data also tell us that those who are poor have become poorer. For example, if we look at the poorest of the poor, those with incomes below half the poverty line—that is before $4,500 a year for a family of three—we find that the number of black children who are in the poorest of the poor is up 54 percent since 1978, and the number of white children is up 69 percent since 1978 that is falling into the ranks of the poorest of the poor.

We also find the poverty rates are higher in rural than in urban areas. One out of every six Americans in nonmetro areas is poor. One of eight in the urban areas. In fact, if we compare the rural areas to the Nation's central cities, we find the poverty rate in rural areas is now nearly as high as in the Nation's central cities.

This increase in poverty has been widespread. More increases in the number of poor people among whites than blacks, among two parent than among single parent families, and particularly among Americans who work. Of the 32.5 million Americans below the poverty line, 18 million now live in a household where someone works, but the family is still poor.

Not surprisingly, this has been connected or accompanied by an increase in the number of people going to soup kitchens, emergency food pantries, increases in reports of the number of the incidents of hunger in the United States. At first blush, some of that might seem surprising, though, because we have been in an economic recovery, and it might seem surprising that we continue to have evidence that hunger grows worse. I think part of this relates not only to those who are poor getting poorer but to the impact of soaring housing costs on the poor. There is new data released for the first time by Census and HUD just a few months ago on a national survey that shows that 45 percent, nearly half of all of the poor renters in the United States, now spend at least 70 percent of income for housing costs.

Eighty-five percent, 5 of every 6, pay more than 30 percent of their income for housing, or more than the maximum amount considered affordable for those households under standards set by the Reagan administration. These severe housing cost burdens for the poor occur in rural and urban areas alike. About three-fourths of the rural poor face housing costs that by the Federal standards are unaffordable.

This makes it difficult for an increasing number of poor households to pay the rent and utility bills and have enough resources left over including food stamps to buy enough food to last through the month. Since the rent and utility bills are fixed, food purchases are often the first item that gets squeezed. If the rent bill is missed instead, that can lead to eviction, and studies show that eviction is probably the single primary factor that occurs before homelessness.

So what we have are large numbers of poor households who are averting homelessness only by paying such high portions of their income for housing that they do not have enough money to buy enough food to last through the month. Where does this take us in terms of next year's farm bill? This committee took an important step last year in passing the Hunger Prevention Act of 1988. But it should be noticed that that act's purpose was really not to help diminish the problems of hunger but to keep them from getting worse as what otherwise have occurred due to the disappearance of most of the TEFAP program, which only a few years ago had been providing $1 billion a year in surplus commodities and now the surplus stocks are mostly gone.

The last year's act basically had as its principal provision an increase in food stamp benefits of $2 to $3 per person per month to help cushion some of the effect of the loss of the TEFAP program. I would urge the committee to consider further action next year. Now that, I recognize, would require resources and that reducing the deficit and other principal interest of our organization and our focus on budget work is essential to the Nation's economic health. I would argue, though, that getting our fiscal house in order involves reordering priorities at the same time we reduce the deficit and that one of the leading priorities should be efforts to reduce poverty and hunger, especially among the Nation's poor children.

In that vein, I have outlined in the testimony a few specific suggestions. I will just mention one now and submit the rest for the record, and that one is that I would hope that the committee would consider doing more to help poor families and children avoid having to face this gruesome choice of paying the rent or getting enough to eat. There is a problem in the way in which the Food Stamp Program treats housing costs. In theory, the food stamp benefit structure is supposed to ensure that poor households have enough resources including their food stamps to get an adequate diet after they meet costs of other necessities such as paying the rent. And that is accomplished by providing a reduction for excess shelter costs which are housing costs in excess of 50 percent of the household's income.

The problem is that we allow the elderly and disabled to deduct their excess shelter costs in full, but for families with children we limit that excess shelter deduction to $170 a month regardless of what the true excess shelter costs actually are. What that means is hat those families with children who face the most severe housing costs, these are people who are not in any Federal housing program. They do not get any HUD housing assistance. Those who do are not in this difficulty. Those who are getting no Federal housing assistance and are paying 70, 80 percent of income for housing, under the current food stamp structure, some of the money they pay for rent is assumed not to go for rent, but to be available to buy food. The result is that they are put in this difficult situation between the housing costs and the food.

There really is no basis for treating the families with children worse here than the elderly. The census data show very clearly that the elderly poor have lower housing costs on average than families with children because many of them own a home and have paid off the mortgage.

This cap on the shelter deduction came from the Food Stamp Act of 1977. At that point it did not seem that it would cause hardship. What has changed dramatically, and no one could have foreseen it, is the low income housing market in this country. In 1978 there were more low rent units than low income households in this country. By 1985, 7 years later, there were 3.7 million fewer low rent units than there were low rent households.

And we have a severe housing squeeze. The housing programs are not an entitlement. Only 29 percent of the poor get any sort of Federal, State, or local housing aid. And given that that is not going to radically change, it would be $15 billion a year to make low income housing an entitlement. That is not about to happen. Given that that is the case, we need to do something in the Food Stamp Program to avoid this choice between paying the rent and missing meals.

And if we will simply treat the families with children the same as we already do for the elderly poor, I think it is about $400 million a year could be phased in over several years. But I think that is the single-most important outstanding issue that I would hope the committee would look at next year.

Testimony outlines a few other areas, making sure that receipt of the Food Stamp Program does not act as disincentive for a poor youth to continue education. Education is linked to better chances of achieving self-sufficiency and avoiding poverty. I have a brief discussion of the assets issue. This committee in 1985 responded to the recommendation of President Reagan's Task Force on Food Assistance to make a modest adjustment in the value of a car that you can own and get food stamps. The Senate did not go along with that in conference. No change has been made since 1977, during which period the consumer price index for used cars has gone up 120 percent, and we are increasingly concerned that in rural areas where if you lose a job and you are unemployed, you need a car to look for work.

But the current structure may say you can either get food stamps for your family while they are unemployed if you sell your car, or if you keep your car and look for work, then you cannot get food stamps. Finally, Chairman Hatcher and his subcommittee have begun an important investigation of barriers to access for the rural poor to the Food Stamp Program, and I think that is quite important.

I would just end by noting that the Food Stamp Program is a very substantial importance to the rural poor. A new census study shows that during the 32 months covered by the study 1 in every 6 residents of rural America received food stamps for at least 1 month, 1 of 6. Only fewer than 1 in 25 got food stamps every month in that 32-month period. What that tells us is we have many people in rural America who have temporary—most of them working families—who have temporary periods of hardship, and they rely on this program for the temporary period, and then they get back on their feet and they work and they pay taxes and they contribute to the country. And so this is a program that is very important in rural and urban America both. Thank you.

[The prepared statement of Mr. Greenstein appears at the conclusion of the hearing.]

Mr. STENHOLM. Thank you, Mr. Greenstein. Next Ms. Haas.

STATEMENT OF ELLEN HAAS, EXECUTIVE DIRECTOR, PUBLIC VOICE FOR FOOD AND HEALTH POLICY

Ms. HAAS. Thank you, Mr. Chairman. It is a pleasure to be here today as executive director of Public Voice for Food and Health Policy, an organization that works for access to a safe, nutritious, and affordable food supply. It really is a pleasure to be here to bring the consumer perspective in the farm bill deliberations. Also, I would like to say it is an honor to be on this same panel with Bob Bergland, whose leadership at the Department of Agriculture was truly true to the heritage of the people's department on which it was founded.

The American consumer has an enormous stake in the development of a strong productive agricultural sector since they spend about $460 billion annually for food. Despite the fact, it is interesting, before the early 1970's consumers rarely participated in deliberations on the farm bill. I realize that this is my fourth farm bill that I have been a part of bringing the consumer perspective, and in those early years we were certainly considered to be hostile intruders in the process, and it really is quite heartening to see how far we have come in that process. We may not be the most beloved, but yet I think the committee recognizes the importance of understanding the consumer perspective and reflecting it in the policymaking process.

Consumers, however, have invested heavily in productivity growth through the prices and taxes that they have paid to support farm incomes. And as investors, consumers expect to share equitably in the benefits of increased farm productivity. The Food Security Act of 1985 made significant progress in some policy areas. It helped consumers by reducing inflationary pressures on domestic food prices, by reducing price support levels at the same time that it helped farmers by enhancing the competitiveness of U.S. agricultural commodities in world markets.

In other areas the record of the Food Security Act of 1985 is not as impressive. As we look ahead, I would like to focus on three main areas that I think merit particular attention. That is the dairy policy, sugar policies, and the whole area of food safety policy. Federal dairy policies such as the high and inflexible milk price supports authorized in the 1977 and 1981 acts caused, as we all know, huge, expensive surpluses. And it prevented consumers from sharing in the dairy sector's rapid productivity growth. It was not until the 1985 act authorized the use of triggered adjustments and price support levels that real progress was made toward reducing dairy price supports in a persistent and incremental manner.

We continue to support that approach, but further reductions in price supports are needed today to better bring production and consumption into balance. We are undertaking an economic study of dairy policies with the support of the Food Foundation, and later this year will make specific recommendations.

The Sugar Program by contrast to the other programs in the farm bill remains the only major commodity program of the 1985 in which no progress was made in improving the position of U.S. consumers. According to the recent GAO study, the cost of the program to consumers averaged about $3 billion annually during much of the 1980's. Because the program relies on import quotas primarily to support U.S. prices far above world market levels, each sugar producer's benefits in the program cannot be constrained by payment limitations. We recognize the difficulties of establishing an effective and equitable sugar policy when international competitors have resorted to protectionist policies.

However, we feel that unfair foreign competition is a trade issue that could be handled more equitably through other policy approaches, and when you handle it the way it was done in 1985, the burdens of that $3 billion cost fall most heavily on those that can least afford it just as Mr. Greenstein just spoke of the problems of rural consumers and low income consumers. Those are the people who really pay the hardest for those kinds of programs. But important as the dairy and sugar programs are to consumers, food safety is of most paramount concern today.

There is no doubt that concern about the health risks of pesticide residues in food is at an all time high. At the same time, I can certainly understand how farmers have become increasingly alarmed about the loss in public confidence in the safety of our food supply. And what that means is really that the conditions for a more favorable approach to dealing with food safety, a more meaningful way, needs to be developed for the 1990 farm bill.

In April we brought together with the Kellogg Foundation Grant a group for the food forum education project. It included a wide diverse area of participants looking for policy options. Everyone from the American Farm Bureau Federation to NRDC, from individual apple growers to Consumers Union, and each of those organizations agreed that while regulation is very important as a means of dealing with pesticide policy, we also have to look at the marketing policies which have an ability to affect markets, to respond to consumer concerns about food safety.

Some of the recommendations, and I will just touch on three, merit examination by the committee. First, barriers to the adoption of safer pest control methods should be identified and removed. Second, we need to develop and adopt alternative pest control methods which should be expanded through Federal research and extension. But most importantly, we believe that the ability of food markets to respond to consumer concerns about pesticide residues needs to be improved.

Currently, no food grading and pricing mechanisms exist to translate consumer concerns about food safety into market signals to which farmers can respond. As the committee knows, we were very successful in the nutrition area when the Department of Agriculture responded to a "Public Voice" petition to change the Federal beef grades to stop discriminating against lean beef, to move them from U.S. Good to U.S. Select.

We believe that there is another opportunity in marketing and grading to reflect consumer concerns about pesticides and gives the signal to the farmer to reduce their use of pesticides and regain markets. These measures would not only improve safety, but they would also have the potential to help farmers achieve their objectives of expanding markets through demand in world markets for safer superior quality.

In conclusion, Mr. Chairman, while it is true that consumers have benefited from some provisions of the Food Security Act of 1985, our examples indicate that much more needs to be done to make food and agricultural policies more effective and more equitable. We look forward to working with you in making the policies balanced as well, and in that end we believe that farmers and consumers will benefit for your work in 1990. We look forward to working with you. Thank you.

[The prepared statement of Ms. Haas appears at the conclusion of the hearing.]

Mr. STENHOLM. Thank you, Ms. Haas. Next Mr. Brown.

Mr. BROWN. Mr. Bergland, it is a pleasure to see you here this morning. Say thank you.

Mr. BERGLAND. Thank you, Mr. Brown.

Mr. BROWN. I thought maybe you were not listening.

Mr. BERGLAND. Well, I was thinking about my thumb. I was on vacation and helped my son shingle his house and I lost a fingernail.

Mr. BROWN. Do not bring up thumbs anymore. [Laughter.]

Mr. BERGLAND. All right.

Mr. BROWN. I want to pose a question to you. This matter of farm structure came up yesterday as a matter of fact, and it is a continuing concern to all of us. And whenever we get down to the nitty-gritty of trying to do something about farm structure which means the increasing concentration of production in the large unit, we are accused of social engineering, tinkering with immutable laws that requires that the least efficient be eliminated from the agricultural economy and so on.

And in connection with the question of what we could do so as to direct commodity program payments, for example, in such a fashion as to encourage the family farm unit, we get involved in this question of how do you design the formula in such a fashion that it is fair, that it produces the kind of results that it is intended and does not discriminate against the efficient large producer or give undue benefits to, let us say, hobby farmers who are basically getting their income from some other off-the-farm kind of activity.

Have you tried to develop a formula under which we could use commodity payments to achieve the purpose of preserving and encouraging the family farm without in some fashion be accused of subverting the natural laws of God or something like that?

Mr. Bergland. Well, any payment subverts the natural laws of economics.

Mr. Brown. Yes.

Mr. Bergland. A payment or a tax is an income transfer or levy, and it gets in the way, and so it is not a question of whether we are. Of course we are. Anytime we make payments we change the economic forces. The question is: Who gets them? There are 29,000 farms that had an average net income of $738,000 each in 1987. These are very large, prosperous, well-heeled organizations, and I do not think anybody believes that they depend at all on Government payments. These are mostly concentrated in your part of the world and other communities, but they are prosperous organizations as a group.

I think it can be argued that these large organizations have both the critical mass, the volume, the efficient economies and management and skills necessary to compete effectively worldwide. And that there is no good compelling case can be made to transfer taxpayers' moneys into those treasuries. I think on the other hand, there are good cases could be made to transfer treasury moneys into the hands of people who are not so well endowed, who are trying to stay within that rural community, and to do so need some assistance.

Payments could be structured on a graduated basis which is what I am recommending that on the first 5,000 bushels or units, a payment could be made, and at the next 5,000 be reduced. You have to figure out how much money we could afford for all this, but I believe that the payments should be made on the basis of the crops planted. And we can easily work out a formula so if you plant part soybeans and part cotton or corn or whatever, the payment can be based on the relative value of one crop with another using the last 10-year historical market average price. And that is not hard to arrive at. It is a matter of budgets.

Mr. Brown. What about the farm unit where the income is primarily from off-farm activity?

Mr. Bergland. Well, I think if it grows any grain it is eligible for price supports, they ought to be eligible. But the volume is so small in those cases that it does not really matter. There are 837,000 farms with less than $5,000 income from farming. They had an average net loss of $1,455 a piece. Now their income from jobs is $25,000 each. So they survive in that rural community. The payment they might get, if any, would be very tiny, and for the purpose of simplification, the committee might want to put some lower limit on this to avoid the business of making a $2 payment. That would make no sense.

Mr. Brown. Amazing how fast that 5 minutes goes.

Mr. Stenholm. Mr. Marlenee.

Mr. Marlenee. Mr. Greenstein, on page 2 of your testimony you say that 1 of every 6 Americans living in nonmetropolitan areas was poor. Could you very briefly define "poor" because I want to get into a little discourse with Bob Bergland about farm size?

Mr. Greenstein. This is the official Census Bureau definition of poverty. The latest poverty data from the Census Bureau is for

1987. In 1987, the poverty line for a family of three was $9,056 a year. It is graduated by family size. For example, for an elderly person living alone, it was $5,440 a year that year. But they are low levels, and the Census Bureau then does the survey every year and publishes data every August on the number of people in rural and urban areas, black and white and so forth below the poverty line for the previous year.

Mr. MARLENEE. So this 1 out of 6 families that are considered poor include families that use domestically raised beef, that have a garden, that have other outside boosters of farm living accoutrement. Maybe they are provided a home.

Mr. GREENSTEIN. In the Census Bureau surveys, there is methodologically—statistically it is just much too complicated for them to try to collect data on who grows vegetables in the garden and what the dollar value of those may be.

Mr. MARLENEE. Of course.

Mr. GREENSTEIN. So they are not included in the definition. Of course, the other side of the coin is that while that is available to a larger degree in rural than in urban areas, on the other hand transportation costs are higher per capita in rural than in urban areas. There was a time when the Census Bureau did have a different poverty definition for farm areas than for nonfarm areas. About 10 years ago or so it dropped that believing that it just was not very meaningful on the data that it was using to compile. It just was not very solid.

Mr. MARLENEE. Some of it is not very meaningful at all in my opinion. Not surprising, you say on page 3 this increase in poverty has been accompanied by an increase in hunger. How do you tie that together?

Mr. GREENSTEIN. I do not think it is any mystery. Generally when people have difficulty in buying enough food to last through the month, it is primarily because their incomes are very low, and they have limited resources. I do not think if there is a problem of hunger, it is somebody who makes $40,000 a year. It is not because they do not have the resources or they need food stamps or something like that. Maybe there is just a psychological problem where they do not want to walk out of their house and go to the market. But clearly the incidence of hunger is something that is found among people who are poor, and therefore, would not be surprising that if poverty diminished greatly we would have less hunger, and if poverty grows substantially that we would see more of it.

Mr. MARLENEE. Mr. Greenstein, I was trying to recollect that there was a Harvard study that found that many rural areas were suffering from hunger. And of course, this esteemed institution had used the data base of how many below poverty line figures there were, families there were. And then they went in and evaluated how much demand there was for food assistance programs. Finding that nobody had used those food assistance programs, they speculated that indeed there must be a tremendous number of people hungry because they had not used those programs. And the programs were not available. So I am not an advocate of hunger, and I think we should make assistance programs available, but I get a little upset with institutions that come before this committee and try to convey to the general public that hunger is rampant in the United States of America.

It should not be, and this committee will try to assure that it is not. But we found that one county in Montana that the Harvard study had looked at and said, hey, everybody is below income. They are below the poverty line. They must be hungry in that county. Just the other day I saw that they had the lowest unemployment rate in the United States of America or in Montana. So I question you in your delivery. And Mr. Bergland, I am going to have to wait around for you again. I would like to talk to you.

Mr. BERGLAND. I will be here.

Ms. HAAS. Mr. Chairman, may I add one thing that I did not mention. For 4½ years Public Voice has documented the nutritional status of the rural poor, and we approached it differently perhaps than the Harvard study. What we found in our studies which was supported by the Ford Foundation and I presented to Chairman Hatcher's committee several weeks ago was that the rural poor were deficient in 9 out of the 11 nutrients. In addition to that, growth stunting was more apparent in rural poor areas for kids, 2½ times, than other poor areas.

In addition to that, infant mortality rates and low birth rates of the rural poor were significantly higher than they were for the poor as a whole. So I would be happy, Mr. Marlenee, to provide you with four studies that we have done on the nutritional status of the rural poor that does not take that broad-brush, but instead looks at the specific considerations.

Mr. GREENSTEIN. Mr. Marlenee, let me also say that there clearly are some methodological questions about the Harvard study. There are difficulties in trying to do this data at the county level. That study, for example, did not control for people who were ineligible for food stamps because even though their income was low, their assets might be more substantial or other matters of that sort.

In what I am doing in this testimony, there is no particular county data nor is there a statement that everybody below the poverty line is hungry. What I am saying, and I do not think that this can——

Mr. MARLENEE. But the inference was there.

Mr. GREENSTEIN. No, I think the inference is quite different. And the inference is one that I do not think can——

Mr. MARLENEE. We stand corrected then.

Mr. GREENSTEIN. The inference is—let me be very clear. The inference is that there is an association in general between hunger and poverty. That as poverty goes up, we will see more hunger. As poverty goes down, we are likely to have less of it. That is different than saying that every individual who is poor experiences hunger which I do not believe. But I do think it is the case that if poverty were only half as great as it were today, if half the number of people that were poor were poor, hunger would be less of a problem. I think that is hard to deny.

You yourself stated that this county had a lower unemployment rate. Generally we have more problems of poverty and hunger in recessions than we do in periods of recovery. And what is disturbing to most analysts including myself now is that the poverty rate in this country has not during the economic recovery gone back to where it was during the growth periods of the 1970's for a variety of reasons dealing with underlying changes in the economy, in the wage structure, more female headed families, a whole variety of factors that we do not have the time to go into now.

The poverty rate has remained at an unusually high level for the fifth year of an economic recovery, and as a result we have more of a problem here including a problem of hunger than we would expect to have in a mature economic recovery. That is what I am saying. Not that every individual is poor. Not that you can apply this data on a county basis and say this county is a hunger county and this county is not. I agree there are problems with doing that. But I do think we have an issue here in the country that we ought to be concerned about and ought to address.

Mr. MARLENEE. Unanimous consent for 30 seconds. Mr. Greenstein, on page 4 you state that two-thirds of all poor renters were spending at least half their income for housing. What is the cost of housing and percentage of income for a median-income family?

Mr. GREENSTEIN. That is a good question, and it is dramatically lower. I would be happy to submit the data for the record. But what we find——

Mr. MARLENEE. I think we need to develop some relativity.

I am not convinced by your argument until I can compare it with good base-line figures.

Mr. GREENSTEIN. And the base-line figure is that the median family—I do not have the figures with me—is spending, if I remember correctly, somewhere in the vicinity of 20 to 30 percent of income for housing. The percentage of income spent for housing varies dramatically with income. For poor families it is up around 50 percent on the median.

You get to $20,000 a year, and you are already down to about 25 percent. You get to $50,000 a year, and you are down to about 15 percent. These are the official Census figures, and I will be happy to supply them to your office and for the record.

Mr. MARLENEE. Thank you, Mr. Chairman.

Mr. STENHOLM. Mr. Glickman.

Mr. GLICKMAN. A couple things. One is that I want to welcome Secretary Bergland here. I agree with Ms. Haas. You were a dramatic and positive force toward agriculture and rural America in this country.

Mr. BERGLAND. Thank you, Mr. Glickman.

Mr. GLICKMAN. A couple of quick things. One is just generally, Mr. Secretary, on the Export Enhancement Program. Do you think that has been good, bad, indifferent, and do you think it ought to be continued in terms of authority?

Mr. BERGLAND. I think it is a bad idea, but I think we have to do it. I do not like the idea of governments getting in the business of having to subsidize well-heeled importers. I think it is just bad policy, but as long as the Europeans are doing it, I am afraid we are stuck. I am generally more impressed with using selected export enhancement subsidies than the general subsidies.

There is no evidence that reducing price increases the consumption of wheat, for example. There is no evidence that these two are connected. There is evidence of reducing the price of coarse grains, livestock feed, will increase consumption. So I think the use of export enhancement programs has to be very careful and very selective, and if we could get rid of all of it, we would be better off.

Mr. GLICKMAN. The second question relates to—you talk a little bit about the question of farm base and talk about flexibility and this kind of thing. You know over the years I have been trying to figure out why we never have gone to a bushels or pounds versus an acres type of base because of the simplicity of it and because you do not have to go through a two or three step problem to get where you really want to end up with which is a unit of production versus an acre. And it is so much more accountability.

The government can decide much easier what it can spend and how much wheat, corn, whatever crop it is, to produce by going that way. Do you just briefly think we ought to look at it again or not?

Mr. BERGLAND. Well, briefly, the argument against it is that you cannot regulate production if you are going to control bushels and pounds of grain, say, corn, for example, and do not regulate the marketing of pigs, the grain will find its way to the market through a livestock source.

Mr. GLICKMAN. But I mean in terms of the Government subsidizing or supporting units of production rather than acres, it seems to be a more efficient way of doing it. You end up taking about 15 percent more to get the same ends is what I am saying because of defensive agricultural overplanting on what acres you have and all that kind of stuff.

Mr. BERGLAND. Well, that is why I am in favor of eliminating those historical bases. I do not think they serve a purpose anymore.

Mr. GLICKMAN. Finally, on rural economic development, does your organization participate with, let us say, the bank for cooperatives in any economic development loans?

Mr. BERGLAND. Yes, we do.

Mr. GLICKMAN. One of the things I have been working on is trying to get the Farm Credit System to be much more actively involved in economic development loans because they can joint venture, leverage dollars, and they can do a lot of more sophisticated financing out there in rural America than the private banking system can do it alone. They can do it in a joint venture way. And all these schemes to enhance rural development seem to miss the point and somehow we have to find a reason why people will invest private sector dollars out there. And one of the ways of doing it is to use the Farm Credit System much more aggressively than we have done in the past. Any comments?

Mr. BERGLAND. I think there are possibilities in that regard. We do know that jobs follow money. If you do not have money for the capital investments required to make these businesses more efficient, more productive, it is a hopeless case. And so the big problem in rural areas is we do not have access to big lines of credit. So some kind of a new facility has got to be organized. We are looking very carefully at a new smaller scale version of the Small Business Investment Corporation. The trouble with the SBA program today is it is set up for $10 million loans. We need something that can lend $100,000.

Mr. GLICKMAN. Would that take legislative steps, do you think?

Mr. **Bergland**. I do not know yet. We are meeting with SBA next week.

Mr. **Glickman**. Well, we will work with you on that because I am convinced the Farm Credit System can play a very effective role in the world of the future.

Mr. **Bergland**. Indeed they can.

Mr. **Glickman**. Mr. Greenstein, I appreciate your comments. I agree with you. The increased level of poverty is disgraceful, particularly in a period of economic improvement, and I agree with your point on college students and food stamps. There are a lot of problems out there in terms of poor students going to college and not being eligible for it. We need to correct that in the next bill.

Finally, Ms. Haas, fish inspection. You and I have talked about this before, and I know Mr. Stenholm is interested in this whole subject. Do you think that we ought to move ahead and get some legislation that would have mandatory fish inspection?

Ms. **Haas**. Thank you for your head bobbing up and down. Yes, Public Voice has long felt that this is the most serious food safety problem we face today because of the risk that consumers face because of contaminated, uninspected fish. I am hopeful that a bill will be introduced in the House shortly that provides for the kind of regulation that is needed, and the Department of Agriculture is the appropriate place to do it. It needs the resources, but it also needs tough standards for microbiological contaminants as well as chemical contaminants, and it is a gap that we have got to close. I appreciate the question.

Mr. **Glickman**. But you would not agree then with Congressman Dingell that the Food and Drug Administration ought to have the regulatory responsibility over inspection?

Ms. **Haas**. No, I have been very pleased, and was the lead witness at his hearing, at his aggressiveness in this issue. I still believe because USDA has the resources, the infrastructure, the research capabilities to do the job. But what I am looking for is that this committee can come up with a health driven, consumer driven, fish inspection bill because really the impression is that the Food and Drug Administration is the consumer protector, and the Department of Agriculture does not look out for the consumer's interest, and we need to prove that wrong.

Mr. **Glickman**. Thank you very much, Mr. Chairman.

Mr. **Stenholm**. Let me announce that the committee will break at 1 o'clock. There will be a caucus of the full committee in 1302 at 1:30, and then we will reconvene this hearing at 2 o'clock. Mr. Holloway.

Mr. **Holloway**. Thank you, Mr. Chairman. I guess my basic question would be to Mr. Greenstein to ask you has there ever been a study run to find out how many people we put in poverty due to our Federal programs?

Mr. **Greenstein**. Well, this is obviously a controversial area, but I think you may be referring to some of the belief that these various programs, and the blame is usually placed on the AFDC Program.

Mr. **Holloway**. Well, let me say a few more words before you answer. Basically I grew up in what probably would be considered poverty. I think that we have gone so far with programs that we have made people so dependent that we have a poor education system, for one thing, because the fact that people who draw welfare, who live by programs, have no interest in their children. And there are always exceptions. We always talk about the exceptions here.

But I look at people in my district which is basically a poor district, the ones who work and are productive, who care about what is going on, and I look and see what happens with the education of their children. I look at—to say that we have poor and we need more. We offer just about everything, in my opinion, we could offer from lunches to breakfasts to children, and we say they are suffering from some vitamin deficiencies. It must be within our own programs, but I just sometime wonder if we do not create a worse system. That we make people so dependent they do not worry about what happens in the future. They do not care if they qualify themselves and their children for the future by being so dependent on what we do.

And I find the statement the most asinine statement I have almost ever read from statistics to say that 45 percent of the poor are paying 70 percent for housing. I do not know if that is declared income or what. Undoubtedly it has got to be declared income.

Mr. GREENSTEIN. Well, you may regard it as asinine. It is right out of the tables.

Mr. HOLLOWAY. Well, I am not saying it is not. But undoubtedly they take no consideration for money under the table.

Mr. GREENSTEIN. In all income reporting, whether it is of wealthy people or poor people, none of these statistics are perfect, and there always is some under-reporting of income. There is no question that that is the case. However, given what we know from other studies about under-reporting of income, while when you adjust for that you would probably not get a figure as high as 45 percent paying 70 percent for income, the figure is so high that I think virtually all the experts in the field, regardless of their political persuasion, believe that we really do have a near crisis if not a crisis in the country in terms of the shortage of low-rent housing and the very high amounts of income, regardless of what the precise figures are if you knew all the income, that is being paid for rent.

I mean we have had a lot of urban renewal and condominium conversions. We have decays in rural communities, and the fact of the matter is beyond dispute that there is a much lower number of low rent units in the housing stock now than there were a decade ago. But let me turn to your original question and just comment on what the hard data, most of it funded by the Reagan administration during the early 1980's, which really enlarged our base of knowledge in this area, tells us.

It tells us that certainly while programs can be improved—no question about it—and made more effective and they have their problems, and Congress tried to do something in that direction last year with last year's welfare reform bill, we do know that most of the people who get benefits from these programs do not become dependent on them. We know that 1 of every 2 families that goes on welfare is off within 2 years, that only 1 out of every 6 families that ever goes on welfare stays on for 8 years or more. I just mention the figures in rural areas. While 1 of every 6 rural residents got food stamps at least 1 month in a 32-month period, fewer than 1 in 25 were on food stamps throughout that period.

We know for a fact that the large majority of people who go on the assistance programs are people who are temporarily poor, who are on them during a difficult stretch, and who do not become dependent on them and become self-sufficient. There is a smaller proportion of those who go on who do stay on year after year. That is a concern. That is why I think this committee as well as the Ways and Means and Finance Committees have been beefing up the work in employment in training and programs for those people. But the final thing I would say is the research, and I know this is contrary to the popular impression, the research does show that when you examine the programs closely you really do not find a link between increases and out of wedlock births and participation or benefit levels in these programs.

They have compared benefit levels in the highest paying States in the country with States like Mr. Espy's which is one of the lowest paying States in the country, and if the theory were true, you would find higher rates of dependency, lower rates of employment, higher rates of illegitimacy in States with high welfare and benefit payments than in States with very low payments. And the research shows there is basically no significant variation among those States.

So while there are problems in the program, and we need to combat dependency, I will simply tell you that the prevailing view among researchers whether they be neutral, conservative, or liberal, is that the programs really by themselves are not responsible for a significant increase in poverty. The indictment of the programs, and I would agree with this indictment, is that they have not done more to help people get out of poverty. They do not put them there in the first place, but they have not done more to encourage, push, and assist them to get out and I think one of the things that you and I are both interested in, for example, are things like increasing refundable tax credits for working families with children to reward them for working and enable them to get out of poverty without having to go on these programs. And I think that is an important way we all ought to go.

Mr. HOLLOWAY. May I ask one more question, Mr. Chairman?

Mr. STENHOLM. Without objection.

Mr. HOLLOWAY. To Ms. Haas, on the Sugar Program which everybody seems to want to attack at all times, are you familiar with statistics that show what happened with the price of sugar during the nonprogram years versus what has happened with the price of sugar during the program years?

Ms. HAAS. Yes. But the fact was that the world price also was very high at that time and there was a short supply. We have to look today at the disparity between the world price and the price that we are supporting. The world price, I believe, is somewhere around 13 cents and our price support level is around 22 cents. And that disparity really falls hardest, as I said earlier, on those that can least afford it.

Mr. HOLLOWAY. Well, I am not sure that if it is changed that the price would change. I am not sure that our cereal would be any less or any of the others, but I mean we look at countries such as Australia that protect their own sugar market and then file their grievance or the EEC who do all the dumping, and yet I am not convinced that looking back through the years and looking at the good steady price that we have on sugar, I am a firm believer that we are better off with a program in sugar. And we have a more stable price than we do once we go out of the program. Then very likely the price will go up on the world market and what happens to our consumers then?

Ms. HAAS. That is a good stable price for the sugar producers. As long as it——

Mr. HOLLOWAY. I hope we want people to make money.

Ms. HAAS. As long as it stays high, that is very inflationary to consumers, and you have not only the high price support level, but you also have the input quotas. So you restrict the supply, and in the end, I do not know whether or not the prices would go down, but I think you have to keep a watch on it. Last year with the drought, there was a great deal of concern that there would be price gouging, and we had a press conference along with Congressman Glickman and had 20 consumer organizations doing price watches and found, in fact, that there was not that kind of situation.

If you put the spotlight on it, and you have the antitrust division do the kinds of things that they need to do, then you are going to see those price reductions when the price support levels go down.

Mr. HOLLOWAY. I would think as a protector for the consumer that you would be here saying that we have a good steady price, we do not have to worry what the world market does. But I will assure you that once we remove it that the world market probably will zoom. And if you were arguing for the Caribbean Basin or something, I could follow your argument, not on the basis of consumers in the United States.

Ms. HAAS. Well, I am sorry, but to me American consumers would benefit greatly by a $3 billion charge that was reduced for them, particularly for those consumers who are poor, who according to the Select Committee on Hunger, pay up to 60 percent of their income on food. Then this kind of savings would make a real difference.

Mr. HOLLOWAY. Provided the world market stays low.

Ms. HAAS. I am not talking about doing away with the Sugar Program. I am talking about persistently reducing it to a level where consumers would reap those productivity benefits that the industry has seen.

Mr. HOLLOWAY. Well, I hope you never see what happens because I hope we do not do away with it. But I am afraid that we are going to see that we do not accomplish what you are advocating.

Mr. STENHOLM. Mr. Stallings.

Mr. STALLINGS. No questions.

Mr. STENHOLM. Mr. Espy.

Mr. ESPY. Thank you, Mr. Chairman. This has been a really interesting discussion, and I am just sorry I did not come in earlier. I hope I did not hear the gentleman from Louisiana correctly when he said that individuals on welfare are not interested in their children. I hope if I heard that correctly that the gentleman would reconsider that because that is just simply not true.

Mr. Holloway. Well, I said there were exceptions.

Mr. Espy. Well, my district is as poor as any district in the Nation. I am certain of that, and of the 503,000 people that I am proud to represent, about 305,000 of them make about $5,000 a year. The infant mortality rate out of 1,000 live births is 16.2 deaths. Housing, a fifth of all the housing is classified according to the 1980 census as substandard and dilapidated, and it is just poor. But as I travel around that district, as I am sure the gentleman from Louisiana travels around his district, and talk to these individuals in poverty, and they certainly are in poverty, they are just concerned about a job. There just are not any jobs available in the delta region of Mississippi. We would love to have more factories and more income opportunities, and I am certain they would be the first persons on that job row.

It also reminds me of a discussion a couple of years ago which had been advocated by the former Attorney General when he said there is no such thing as hunger in America, and we know that is not true as well. There certainly is hunger in America, and it is our job to try to reduce it as much as we can. Also, in the district that I represent, which is certainly not an anomaly, housing costs are tremendous. There are situations where the poor will pay up to 50 percent of their income for rent.

And in Mississippi, we do not have a warranty of habitability. There is no habitability statute to maintain basic housing standards. There does not have to be any plumbing. In fact, in a lot of cases there is no plumbing, no running water, no toilet facilities inside of the home, and still they pay what I consider to be outrageous rental prices. So we have a lot to do, both at the Federal level and at the State level, and that is what I have been talking about.

But I do say to Bob Greenstein, I came in in the middle of your discussion when you were talking about the choice between rent and food every month, and you did advance some recommendations so we could adjust the standards, and I would just like you to repeat that if you could.

Mr. Greenstein. Well, the recommendation quite simply is that the Food Stamp Program there is an excess shelter deduction in determining how much income the household has available to spend on food which then gets supplemented by food stamps if necessary.

The excess shelter costs, that is to say shelter costs in excess of 50 percent of income, of net income, are deducted. For the elderly and disabled, they are simply deducted in full. For others, which is primarily families with children, they are deducted only up to a maximum of $170 a month, and any excess shelter costs above that are not deducted and are essentially considered to represent income that is not spent on rent and is available for food.

The recommendation is simply to conform Food Stamp Program treatment of the families with children and the other households to what is already done for the elderly and disabled. That is to say whatever the excess shelter costs are that they get deducted. I would note that this does not make a single additional household for food stamps that is not already eligible. It does not raise the income guidelines, the income limit. It simply says for those who meet the test of being truly needy, we have the truly needy income standard President Reagan proposed in 1981, that is the law, that for those families that we make sure that if they are paying 60, 70 percent of income for rent, we take that into account and make sure that the food stamp benefit structure works in practice the way it is supposed to work in theory.

If you take it into account, you get an adequate level of food stamps. That is basically the concept.

Mr. ESPY. I see my time has run out. Thank you, Mr. Chairman.

Mr. STENHOLM. Ellen, as one who has had previous encounters with you, I do not consider you a hostile intruder.

Ms. HAAS. Thank you.

Mr. STENHOLM. I choose to pass over lightly those areas in which I have disagreement with you and emphasize those areas where we are in agreement.

Ms. HAAS. What a pleasure. Thank you, Mr. Chairman.

Mr. STENHOLM. When you say we look forward to working with this committee on a health-driven, consumer-driven bill, could you bring yourself to include science-driven?

Ms. HAAS. Definitely.

Mr. STENHOLM. I am very tired of those who continue to make nonscientific statements that make the press and costs the producer and the consumer in the pursuit of a science-driven, health-driven, consumer-driven, food safety and inspection system. Should we not be looking at some positive research projects that would help us reallocate priorities and resources, or should we be looking at new resources, and if so, where are we going to get them?

Mr. GREENSTEIN. I do not know, Mr. Stenholm, that we necessarily need a research project. I mean as you all know better than I do, this is a very tough political problem for the Congress. Right as we talk here today, the Congress is moving under great pressure to probably allocate more resources by possibly rolling back the income related premium in the catastrophic health insurance bill, changing the Social Security earnings test. Those are both changes, not to get into a long discussion of them, in which the change if it is made, will benefit elderly people at middle and upper income levels.

We do still have elderly poverty in this country. Ideally, if we could find the resources, I would like to see us do a little more in areas like the Supplemental Security Income Program, but there certainly are areas, I think, for elderly people who are not low or moderate income where adjustments could be made. We have called for years, and this is terribly politically controversial, most people quite understandably who have to run for office do not want to be associated with us, but you will find that most analysts, conservative and liberal alike, believe that in Social Security we have, as compared to private contributory pensions and private pensions, anything you get back when you are over 65 that is in excess of what you paid in out of your own paycheck is taxable income.

In Social Security that is not the case. If it were the case in Social Security over time we would be bringing billions dollars more into the Treasury that we could use either to reduce the deficit or to help finance some of the other programs for people 65 or over. Obviously, we do not have payroll taxes and things of that sort for poor children, and the result, as you say, is we do have a great differential on how resources are directed there. And if you look at the progress in the last quarter century, the national success story is the reduction in poverty among the elderly from 1 out of every 3 being poor in 1960 down to only about 1 out of every 8 being poor today.

But while that has been happening, the poverty rate for children has been going way up, and as Senator Moynihan often says, we are one of the only industrialized countries that has a poverty rate for children that is much higher than the poverty rate for the elderly, for the population as a whole.

Mr. STENHOLM. Mr. Brown.

Mr. BROWN. Thank you, Mr. Chairman. Do not be too hard on those of us over 65, Mr. Chairman.

Mr. STENHOLM. I was not. A third of my district is over 65. And the grandpa lobby is a lot stronger than the grandchild lobby. I understand that.

Mr. BROWN. Mr. Jones, I appreciate very much your testimony on title XIV. We have not devoted nearly as much attention to the science aspects of the farm bill as I would like to see, and you have helped to remedy the balance a little bit here. I am particularly interested in your suggestion about a title dealing with the environment, and I agree with you on the importance of it.

It is also, I think, politically in the great interest of agriculture to identify itself with its growing public concern about global environment, global change. And we are going to see a multitude of very important research programs, and I want to see agriculture carrying its share of the responsibility for this kind of research. Do you think the agricultural research system, the structure, is going to be up to this kind of redirection if it is called for?

Mr. JONES. I thank you for your support in that. Yes, I think it is very definitely true that the system can respond. It continually does. We are often characterized as not changing, but the data show that we do continually change, and that there is ample evidence that we are addressing some of these issues, and we are prepared to move further in that direction.

Mr. BROWN. We have been told that there will be some suggestions for modification of the agricultural research structure emanating from the Board on Food and Agriculture at the National Academy. And basically this is going to be in the direction of enhancing the competitive grant program focused on a number of high priority targets such as biotechnology and alternative uses of agricultural products and things of that sort. Do you feel that such a change would be a desirable change in the agricultural research establishment?

Mr. JONES. Well, certainly the biggest change that is needed in the agricultural research system is adequate funding. The proposal that is likely to come from the Board of Agriculture is an attempt to focus on that issue. I think the question that will arise for the Congress and the committee is maintaining a balance between new programs and existing programs. It is sort of like deciding whether or not you are going to build a new firehouse out at the edge of town while the one downtown deteriorates or whether you are going to have a balance in the area. So while I do not know what the board will propose, I think you have to look at the system that has to respond, whether you give them competitive grant money or what you give them.

Mr. BROWN. Well, I am glad you pointed out. We yesterday pointed out that funding for agricultural research and extension has been at level or declining level for quite a few years, and I would be the last to suggest that we take more money out of an existing program that needs additional funds just to put it into something new. I think what we have to have is a major infusion of new money, but it is going to have to be sufficiently attractive, the program, from a political point of view as to attract that new money.

And this is going to be a job because we do not have lots of new money today.

Mr. JONES. Yes, we fully understand that, and we are trying to listen to all segments in developing the program.

Mr. BROWN. We appreciate that very much. Thank you.

Mr. STENHOLM. Mr. Stallings.

Mr. STALLINGS. No questions.

Mr. STENHOLM. Mr. Espy.

Mr. ESPY. No questions.

Mr. STENHOLM. Mr. Greenstein, on page 6 of your testimony you acknowledge the Hunger Prevention Act of 1988. You state that TEFAP went out and one of the reasons TEFAP went out is because the Dairy Program is working to reduce surpluses. Consequently, it in turn has then created some consumer problems for at least the poorest of the poor that were benefiting from the TEFAP program. Is that what is happening?

Mr. GREENSTEIN. I think that is a fair assessment.

Mr. STENHOLM. As we look ahead to the Dairy Program, it seems to me if we continue in the current direction we can expect that any surpluses are going to be reduced.

Mr. GREENSTEIN. I presume that is true. I hasten to say I am not an expert on the dairy programs and do not know as much about them, but I certainly do not think we should have agricultural policy driven by a need to create surpluses to distribute to the poor. We have many ways that we can help the poor, and we should not artificially create surpluses just for the sake of doing that. I think we should do whatever is the right agricultural policy, and then we see where that leaves that situation of the poor and address that.

Mr. STENHOLM. Mr. Bergland, I tend to agree with you in suggesting that we make changes in our current farm-base system. You suggested going back to the old NCA. We have developed a compromise proposal called the triple-base system in which we allow flexibility but for perhaps budgeting reasons we continue the bases. We also make a provision for a third base that would be produced or not produced. Do you have any comments surrounding the concept?

Mr. BERGLAND. I am not sure I understand the third-base approach. I have seen some literature on it, and if it is what I think it means the grower would have a chance to produce for export, would not be eligible for price supports. Am I right on that?

Mr. STENHOLM. That is correct.

Mr. **Bergland**. Something derived from the Peanut Export Program.

Mr. **Stenholm**. That is correct.

Mr. **Bergland**. In peanuts it works very well. It forces the exporters to contract ahead of time so the growers know going into the planting season that they have an outlet and at what price. I think there is a great deal to be said for that.

Mr. **Stenholm**. We are borrowing from several things that we have experimented with over the past several years. We are trying to move toward market orientation without throwing the baby out with the bath water. You could also suggest this approach for the Dairy Program.

Mr. **Bergland**. Well, I think it makes sense. I have friends in Georgia in the peanut business, and if the prices are below $350 a ton they just do not plant them. I am talking about peanuts for export. They cannot grow them for that low price. And so the exporters know that if they are going to get any peanuts for the business they have to raise the price. Nothing wrong with that.

Better to do it ahead of planting than afterward when they have the grain in the bin and they are stuck for a home.

Mr. **Stenholm**. I am tempted to ask you, Ellen, a question, but the red light saved you. I promised I would be nice to you today.

Ms. **Haas**. You go right ahead if you want to.

Mr. **Stenholm**. You stated some concerns about the Dairy Program and the Sugar Program in your testimony. You also stated that you are not ready to make recommendations as yet so we are not going to plow that ground with you today.

I would hope when we get down to serious discussions surrounding dairy policy that we are not going to have to fight the old consumer battles on the price structure. That would not be productive.

I just got to make a note, today we have heard that the poorest of the poor expends 60 percent of their income for food, and 70 percent of their income for housing in statements that were made today.

Ms. **Haas**. What I was referring to was an earlier document by the Select Committee on Hunger and said that the poor could spend up to 60 percent of their income on food.

Mr. **Greenstein**. The typical poor family is spending about 50 percent of income for housing. I do not think they are spending anywhere near that percentage for food.

Mr. **Stenholm**. OK. Mr. Bergland, I would appreciate your analyzing our triple-base proposal. I would very much like to have your personal guidance and counsel on the proposal. I am going to go back and reread your "A Time to Choose."

Mr. **Bergland**. Yes, sir; that is it. It is 10 years old, but it is still good reading.

Mr. **Stenholm**. Yes, it is very good, and I thank you for pointing that out. Thank you all very much for being here.

Mr. **Bergland**. Thank you, Mr. Chairman.

Ms. **Haas**. Thank you.

Mr. **Stenholm**. Call panel three: Mr. Grossi, Ms. Hinkle, Mr. Cook, and Mr. Meyer. I remind everyone that we will call a recess promptly at 1 p.m. Mr. Grossi, you may begin.

STATEMENT OF RALPH G. GROSSI, PRESIDENT, AMERICAN FARMLAND TRUST

Mr. GROSSI. Thank you, Mr. Chairman. My name is Ralph Grossi. I am president of the American Farmland Trust, a nonprofit organization dedicated to the protection of American agricultural resources. I am also managing partner in a dairy, custom beef, and small grains family farm operation in northern California. I want to thank you for allowing us to come before the committee at this early stage of the formulation of the next farm bill.

American Farmland Trust is looking forward to working with you and the committee, and to that end I would like to make you aware of two major current research projects being undertaken by our organization. First, we are conducting in-person interviews with approximately 600 farmers to identify their views about proposed directions in farm policy. Those interviews are about 80 percent complete. They take from 1 to 2 hours each in person. We are finding that there is very good information coming from that process.

Second, we are conducting a series of brainstorming workshops around the country. These workshops allow us to hear what farmers, soil conservation professionals, State agencies, universities, and local groups think about change in conservation policy. We hope to be able to report on both of these projects later this year to the committee.

My testimony today will address the need for changes in operation of this Nation's conservation programs and specifically programs that protect our agricultural resources for future use.

Protecting the gains made in the 1985 farm bill may mean an extension of authorities such as land retirement under the Conservation Reserve Program. And will definitely require close coordination between divisions of the commodity programs and operation of the conservation measures. For the land that will remain in production, compliance with accepted conservation practices will be important as will the flexibility for local offices to implement them.

For land in the Conservation Reserve Program, the committee should strongly urge the U.S. Department of Agriculture to prepare a study describing the potential for economic use of land enrolled in the conservation reserve in the post enrollment period. Our early interviews with farmers and in our workshops indicate a high degree of concern about year 11 of the conservation reserve.

Some of the crop acreage now in the conservation reserve should be permanently retired from intensive row crop production using voluntary, incentive-based programs. Some of this highly erodible land and environmentally sensitive land was drawn into production by incentives that proved to be unrealistically high.

I am concerned and dismayed at what I heard earlier today, an indication in Congressman Marlenee's question about having to choose between commodity programs and the conservation reserve. The implication that a cap on the conservation reserve is a tradeoff against support for the commodity programs I think is entirely wrong. It is not a question of either/or. The American public has shown that they believe that there is strong support for the conservation provisions of the 1985 farm bill, and there is also strong support for the food security issues and protection of the family farm that were also embodied in that act.

To put us in a position to trade off one against the other I think is unrealistic. On top of that the reserve itself will save more than 5 billion tons of topsoil according to the Soil Conservation Service. Many of the States have built programs onto the reserve anticipating up to 40 million acres in the program.

And more importantly, the problem surrounding inconsistent policy signals to farmers is a critical one. To cap the conservation reserve at this time or to change direction before the 5-year signup period is up would be just another one of those signals to farmers around the country that Congress and the Department of Agriculture is willing to move off of stated policy objectives.

The second issue I would like to address is that related to our best land. The best, most productive land under cultivation should be kept in agricultural use, again using voluntary incentive based programs. Much of AFT's work is directed toward maintaining a productive agricultural base in diverse areas of the United States. In many areas development pressure can cause unwise growth patterns that needlessly convert agricultural lands to nonagricultural uses. Some of these lands are among the Nation's most productive, and their conversion to nonagricultural use is a permanent loss for future generations.

For example, in California more than 140,000 acres of farmland become part of the sprawling suburbia each year. Similar patterns can be identified in Florida, Pennsylvania, and other States. Moreover, certain areas are under extreme development pressures. These areas include particularly unique and agriculturally valuable places such as the cherry growing region in Michigan near Grand Traverse Bay, the valleys of the Connecticut and Hudson Rivers in the Northeast or the Salinas Valley in California and many more.

Many of the States are beginning to take action through aggressive programs to protect the very best land. The provisions of the Farmland Protection Policy Act must be better administered and in some areas strengthened. From all indications, the Nation continues to lose its best farmland at an unacceptable rate. Some of this loss is attributable to poor economic conditions facing farmers and ranchers.

However, additional losses could be averted. The Department of Agriculture has poorly and unenthusiastically administered the 1981 act as amended. Its lackluster performance may well be causing Federal participation in the needless and irrevocable loss of prime agricultural land. To improve administration of the act we recommend the following changes that will establish new safeguards against unwarranted conversion of prime agricultural lands.

First, a stronger policy on the importance of U.S. farmland is needed. Second, assign the responsibility for enforcing the act to an appropriate and designated agency or special assistant. Third, revise the procedures for reviewing Federal program activities that may directly or indirectly convert farmland to permanent nonagricultural uses. Fourth, obtain current information on the extent of the loss of agricultural lands. The Secretary of Agriculture should be directed to submit to Congress a report detailing current information on the extent and rate of conversion of farmland. Fifth, make all Federal agencies aware of the consequences of needless conversion of farmland to nonfarm uses. Specifically, the Farmland Protection Policy Act should be amended as suggested by Congressman Panetta last year to bring certain land acquisitions by the Department of Defense under the review provisions of the act. And sixth, empower local officials to negotiate equally with Federal officials. Now only a Governor has standing under FPPA.

Before I conclude I want to add one additional comment. I agree wholeheartedly with Secretary Bergland's comments about the base programs but for a different reason. We have found in our analysis of farmland on the fringe of metropolitan areas, that much of our very best and most productive farmland—in fact, about two-thirds of agricultural production is in the metropolitan fringe in dollar value. We have also found that the farm programs apparently discourage innovation in farming, that farmers frequently are protecting their base and producing commodity program crops in close proximity to major urban areas, even though markets in the local area might indicate the production of crops that would be consumed in that area.

And the base programs are one of the reasons that this is occurring. I live 18 miles from here in Montgomery County, Maryland, right now. And within 3 miles of my home are wheat, soybean, and cornfields, and yet a great deal of food is being imported from California, the Southwest and even Mexico to feed the people in Montgomery County in this metropolitan area. We believe that is a major issue, another reason to take a hard look at the base programs.

Mr. Chairman, today's hearing will provide a valuable basis for future committee consideration of needed amendments to the Food Security Act. I want to thank you for this opportunity, and assure you that we are ready and available to work with you and the committee over the next year in the final deliberations of the next farm bill. Thank you.

[The prepared statement of Mr. Grossi appears at the conclusion of the hearing.]

Mr. STENHOLM. Thank you, Mr. Grossi. Next, Ms. Hinkle.

STATEMENT OF MAUREEN KUWANO HINKLE, DIRECTOR, AGRICULTURAL POLICY, NATIONAL AUDUBON SOCIETY

Ms. HINKLE. Thank you, Mr. Stenholm. The National Audubon Society appreciates this opportunity to testify at this series of hearings on the formulation of the 1990 farm bill. The enactment of the conservation title of the Food Security Act of 1985 was a culmination of a long and sustained effort on the part of Audubon from our grassroots through the commitment of resources at the national level.

Among our half a million members and our board of directors we have farmers and volunteers trained in the careful observation and conservation of our environment. In addition, National Audubon and some of our chapters own, operate, and lease farmland. We, therefore, look forward to building upon the 1985 conservation initiatives and the upcoming 1990 legislation. Many have taken note of the 30.6 million acres enrolled in the Conservation Reserve Program that Congress established in 1985.

The erosion reduction has been estimated to be over 609 million tons of soil erosion per year. And your State leads the States in the erosion reduction per year. The CRP has also dramatically improved wildlife habitat and has helped to stabilize land values. We understand that the CRP may suffer a moratorium of 18 months as of this year, and if that occurs, we think that Congress should take a look at what to do with the remaining 10–15 million acres, the incentives that are needed, what kinds of amendments and modifications might apply to the existing contracts so that farmers could have an economic use of their land and it would be retained in conserving uses.

In the interest of time since I know that we have to adjourn at 1 o'clock, I will skip over the list of incentives that I have in my statement and go to ground water. Although the 1985 farm bill brought more consistency between conservation and commodity programs, the current system continues to reward farmers on the basis of yield and the acreage of program crops planted. This basically 50-year-old policy emphasizes production regardless of environmental consequences such as ground water contamination.

My statement details the importance of ground water, the increase in herbicides which are water soluble, and the increasing incidence and occurrence of pesticides in ground water. We believe that more cases are inevitable unless programs are put into place now. Many people say that we have to wait until we see what happens or how much contamination there is. But the mechanism for transport of agricultural chemicals to ground water is now becoming clear. Therefore, we believe that policies to prevent contamination of ground water are needed immediately in view of the body of information now emerging on vertical and lateral water and chemical transport and retention.

A significant fraction of pesticides applied to soil can move rapidly downward, reaching depths up to 10 times greater than previously believed. This gravitational transport even occurs in clay soils. In South Dakota, scientists have constructed a 9-foot deep culvert to instrument the vertical movement of agricultural chemicals in water. Flowing through cracks, wormholes and fissures, nitrates and pesticides have been detected 10 to 15 feet below the surface just 2 days after application.

We think that farmers would like to move out of intensive row cropping, but they need positive incentives to manage less intensively. Audubon and others are currently investigating ways to reverse these incentives. Not all cropland is vulnerable to ground water contamination. But in a vulnerable watershed it may be necessary to develop resource management plans for each farm in that watershed. Building on programs of soil erosion, management plans could expand to a system of practices that would reduce the delivery of identified pollutants to either surface or ground water.

Plans could include biological control, integrated pest management, best management plans, all of which limit the application to the amount of agricultural chemicals to those necessary for crop growth or the suppression of disease or pest problems. Another response which you have proposed not only this year but 4 years ago is base flexibility which would ease the distortion of current programs and reduce Government outlays. Farmers would be able to increase their profits by moving away from surplus crops and into alternate crops in higher demand.

As commodity production is reduced, the need for costly annual set-asides is relaxed. Land would be substituted for the set-asides, thereby reducing the previous temptation to apply heavier applications of chemicals to acres remaining in production. By moving from continuous single cropping to certain kinds of rotations, the risk of ground water contamination could be reduced.

In addition, we believe that a high priority should be placed on research and development and we urge you to develop a comprehensive ground water title in the 1990 farm bill to help farmers to reverse this trend of contamination on their fields. Thank you very much.

[The prepared statement of Ms. Hinkle appears at the conclusion of the hearing.]

Mr. STENHOLM. Thank you, Ms. Hinkle. Next, Mr. Cook.

STATEMENT OF KENNETH A. COOK, VICE PRESIDENT FOR POLICY, CENTER FOR RESOURCE ECONOMICS

Mr. COOK. Thank you, Congressman. I appreciate this opportunity to testify on behalf of the Center for Resource Economics, an environmental research and publishing organization based here in Washington. I have a lengthy testimony; I will summarize it, of course. And I will begin by trying to recapitulate my central theme at the beginning of the testimony which is simply that in my view the chemical era of American agriculture is in many respects coming to an end.

It is not coming to an end primarily, or going to come to an end primarily because of regulation of farmers, although there is considerable interest and concern about the environmental problems associated with pesticides and regulation is in the works, particularly at the State level. I also do not think it is going to result as a matter of wholesale banning or restrictions on agricultural chemicals by the Environmental Protection Agency, although probably more restrictions are ahead of us.

I think the main impetus for this change is going to be the actions that farmers themselves take voluntarily to reduce chemical use in pursuit of environmental and profit goals. I think changes in Government policies and new priorities for research and technical assistance are certainly going to be needed to shape and encourage this change, but again it is the farmers who are going to be at the root of it.

In my testimony I mentioned, because the issue is so controversial, a number of biases that I have about agricultural chemicals. I feel sort of obligated to do that as an environmentalist these days because the issue has become so controversial. They are listed on pages 4 through 6. One theme is that agricultural chemicals are all bad. I do not think so. I do not think they are all equally dangerous. I use them in my garden. I have used them in farming operations before, but I think that they pose risks.

I do not think that farmers are profligate in their use of agricultural chemicals, but I do think they can do with a lot less use of chemicals and that they will be the ones who will be able to figure out the fastest, most efficient ways to do it. I do not think that agricultural chemical pollution poses an emergency for public health, but I do think that there are risks that we can avoid and that reducing the use of agricultural chemicals on-farm is probably the best way to do it.

I do not think the American food supply is unsafe. I think we could use it a little bit better in terms of the way we eat, but I do think that we can eliminate some of the risks that are identifiable in the food supply. I do not think organic farming is the only solution to dealing with pesticide and fertilizer use problems. I think it is one solution. It is working for many commercial producers now. But it is not the only solution. I think that, generally speaking, the sector should move in the direction of reduced chemical use, and that is in the direction of organic agriculture; but I think we can reduce the risks posed by agrichemicals far short of a system that is totally or even mainly organic.

If I could move ahead, I will try and characterize why I think this shift is going to occur. It has to do with such things as changes in farmers' attitudes; concerns about ground water in rural areas, not primarily in urban areas; a growing awareness of the environmental impacts of farm programs. Certainly regulation of agricultural chemicals, particularly at the State level, is having an effect. And I think a shift in attitudes within the research community in its goals and activities.

Public concern about pesticides plays a role in it, but I do not think that the change has been as significant as some of these other changes in terms of the impetus for reducing chemical use. We have a fairly ambitious policy research project underway at the Center for Resource Economics looking at ways to improve the economic and environmental performance of U.S. agriculture.

I describe some of the areas of policy interest in the testimony. There are basically four. One is the conservation title. We are just going to take another look at that and see what changes might be needed. In terms of the Conservation Reserve Program there are obviously some questions that arise about extending protection, expanding the reserve and so forth. On the issue of the conservation compliance sodbuster and swampbuster provisions, I think I will leave my views open on that until the Soil and Water Conservation Society evaluation is completed, which I am participating in along with the National Association of Conservation Districts, the Farm Bureau, and major USDA agencies involved in implementation.

I have laid out a number of reforms for source reduction. Commodity program reform, I think, is an important one. We are going to be looking at your triple-base proposal to see what impacts it might have on conservation and environmental protection. I think generally there is a strong feeling that commodity programs need to be more flexible and that that flexibility can serve environmental goals, too.

And finally, I would like to associate myself with the comments of Ellen Haas earlier on the need to look at food safety considerations in the farm bill, particularly, the need to open up market signals, marketing channels for producers who voluntarily decide that they want to produce crops with no use of chemicals, or with fewer chemicals. I think that is an important issue that needs to be examined. Thank you, Mr. Chairman, and I will leave my comments at that.

[The prepared statement of Mr. Cook appears at the conclusion of the hearing.]

Mr. STENHOLM. Thank you, Mr. Cook. Next, Mr. Meyer.

STATEMENT OF STEVEN R. MEYER, DIRECTOR, GOVERNMENTAL AFFAIRS, NATIONAL ASSOCIATION OF CONSERVATION DISTRICTS

Mr. MEYER. Thank you, Mr. Chairman. I am Steve Meyer, director of government affairs for the National Association of Conservation Districts. NACD is the organization that represents those units of local government or those units of State government organized at the local level who are charged with developing a natural resource management program.

We believe that the 1985 Food Security Act was and continues to be a landmark piece of Federal legislation. It was the first time we tied directly together a conservation and the commodity programs of the Federal Farm Program. The perspective that I am going to give you today comes from our members who are directly involved with implementing those conservation provisions. Our folks are out there day to day helping farmers find out what those conservation provisions mean to them on their individual operations and how to meet those requirements.

We believe that the current existing programs are working fairly well, and with the 1990 farm bill will need only minor adjustments. We would urge the committee to use caution in looking at extensive changes to the 1985 conservation title. I will generally summarize my comments in two sections. One, those items that our members have identified could make the existing conservation provisions more efficient in operation in the field; and two, some new concepts that we think that the committee should look at as far as additions in the conservation title for the 1990 farm bill.

Changes in the 1985 provisions with the Conservation Reserve Program: Our members believe that we should extend the sign-up period beyond 1990 and enlarge the Conservation Reserve Program beyond 45 million acres. They believe that this is going to be necessary to take care of some other problems beyond just the soil erosion problems that were the original goal of the CRP. Among the things that our folks have identified as potential beneficiaries of an expansion of the Conservation Reserve Program are more wildlife habitat, wetlands protection, and water quality initiatives.

We also believe that there is an opportunity to change in the 1990 farm bill the way we treat tree planting on conservation reserve acres. We think that by providing some improved incentives, we can encourage more tree planting and therefore maybe start to do something from this country's perspective on getting a handle on some of the problems with global warming.

With conservation compliance, I think the jury is still out on conservation compliance. We are fast approaching the first deadline of having the requirement of having a conservation plan developed by December 31 of this year, and we are going to have another 5 years to find out how that is really working. We do not think that there should be any effort to change the use of alternative conservation systems, that technical method seems to be working across the country to bring in local variances to make the program workable at the local level.

We do, though, believe that we are going to have a tough time, both districts and USDA, meeting the technical requirements of conservation compliance in the next 5 years. We see the workload increasing astronomically beginning in 1990, as the farm community comes in and asks us to help them individually apply those conservation plans to ensure their eligibility for the commodity programs. And so we see a need for additional Federal resources in the realm of technical assistance for conservation compliance.

In the areas of sodbuster and swampbuster, the one issue that we see in swampbuster right now is that there is no management flexibility for the farmer. And we would suggest looking at the possibility of allowing full mitigation of agricultural wetlands, allowing their conversion if the farmer provides full mitigation. The other thing that we see happening that we hear from our members out in the field is that the current so-called drop-dead penalty for sodbuster and swampbuster violations is not necessarily going to work well, and that we need to address the possibility of getting ASCS some limited flexibility in setting penalties that are along and scope with the violation.

As far as new initiatives for the 1990 farm bill, we would urge the committee to look at five different areas. The 1985 act allowed USDA to use multi-year set-asides. We believe those should be mandated. We believe we need to begin to start now to look at how we protect in the long term CRP acres.

We think that we need to develop a water quality program that is based on technical and financial assistance, research, education, and coordination with State and local governments. But the important thing is that we move today and begin in 1990 to address actively the agricultural water pollution problems in the country. We believe there should be a sustainable agricultural program, but we do not believe that sustainable agriculture is synonymous with low-input agriculture, that there can be sustainable agriculture without mandatory limitations on chemical inputs.

And finally, we believe that there should be a program to begin to restore the wetlands on agricultural land. Thank you, Mr. Chairman.

[The prepared statement of Mr. Meyer appears at the conclusion of the hearing.]

Mr. STENHOLM. Thank you, Mr. Meyer.

I want to commend all four of you for submitting very excellent statements. Today, I find myself in much more agreement with your statements than in the past.

We have run into some terrific problems, as some of us knew we would, in reaching the 25 percent cap of a county in the CRP. So perhaps, right now, a moratorium makes sense. Do you agree?

Mr. GROSSI. Just a quick comment. I fully appreciate the choice that you are faced with regarding the budget situation. I might just add that we believe that when it comes down to making choices concerning financial resources, that the American public may very well be more amenable to making those allocations toward stewardship given that the money will probably go to pretty much the same group of farmers anyhow rather than to the subsidy of additional production.

And as that choice comes closer, which I am sure it has by now, we would like you to keep in mind that people will support rewarding stewardship. And frankly, as a farmer myself, I believe that farmers will respond to incentives and rewards for stewardship because they really are the true stewards of the land.

Mr. STENHOLM. Very well said. No further questions for you at this time. Again, I sincerely commend you on the statements that you have made. You have really given us some food for thought and some very constructive ideas.

Thank you all very much for being here.

Call panel four: Mr. Lapointe, Ms. Carter, and Ms. Nassauer. Mr. Lapointe, you may proceed.

STATEMENT OF GEORGE D. LAPOINTE, LEGISLATIVE COUNSEL, INTERNATIONAL ASSOCIATION OF FISH AND WILDLIFE AGENCIES

Mr. LAPOINTE. Thank you, Mr. Chairman. I am George Lapointe, representing the International Association of Fish and Wildlife Agencies on behalf of all 50 State fish and wildlife agencies. I hope that you find our statements, like that of the last panel, contains a good dose of that west Texas common sense that you mentioned earlier. The conservation provisions of the 1985 farm bill have been successful in reducing soil erosion and protecting and enhancing fish and wildlife habitat. The farm bill has also demonstrated that agricultural and conservation interests are compatible leading to enhanced wildlife habitat in the Nation.

The association's recommendations for the 1990 farm bill are aimed at continuing and fostering this compatibility. The association, recognizing the potential benefits of CRP to wildlife, sponsored a study on the effects of CRP on wildlife. Our written testimony contains some of the preliminary results from this study. In very short summary, the study which was conducted in 27 States across the country has shown that CRP benefits wildlife through improving cover and available habitat.

Data from 1988 have also shown that haying during drought, as occurred last year and this year, reduces the value of CRP for wildlife. In addition to benefiting terrestrial wildlife, the reduced soil erosion from CRP should also benefit aquatic resources through reduced sediment loads in streams and ponds. In summary, the association has found that the 1985 farm bill amendments contain enormous benefits for fish and wildlife. It has also fostered cooperative relationships between the agricultural and conservation communities.

It is in this spirit that the association wishes to continue to support this legislation and offer recommendations for further improvement. The association believes that an important provision of the 1990 farm bill will be to determine what should be done with

CRP contracts at the end of 10 years. To maintain erosion control and enhanced wildlife values on CRP lands, the association recommends that CRP contracts be extended by 5 years to 15 years. Management and monitoring of these lands are needed to devise strategies to protect farmland from returning to the plow after CRP contracts expire.

The wetland conservation provisions of the farm bill were written largely to protect agricultural wetlands from conversion. There has been much discussion on how to strengthen the swampbuster provisions. The association has considered numerous alternatives and among the options we have considered are establishing a wetland reserve and restoration program or to expand the water bank program to include all wetlands in the Nation and to allow perpetual easement purchase on additional wetlands.

The conservation compliance provisions, including conservation plans, must be retained as an integral part of the farm bill as these plans will reduce soil loss and improve the environment on lands across the Nation. However, to be effective, we need monitoring and technical assistance of these conservation plans.

The annual set-aside program offers many opportunities for wildlife enhancement. The association recommends that part of the annual set-aside program be committed to multiyear contracts. Possible options to this include multiyear set-asides or establishing a strategic forage reserve.

Last, the association recommends that the 1990 farm bill include a policy for haying and grazing of CRP lands during drought emergencies and for economic use of CRP lands to objectively determine criteria under which CRP lands may be hayed or grazed.

In conclusion, Mr. Chairman, the association believes that the 1985 farm bill is a strong piece of legislation that benefits and fosters cooperation between agricultural and conservation interests. We look forward to working with the Agriculture Committee, the farm community, and other conservation groups in maintaining and improving the farm bill.

The association offers the collective technical expertise of the 50 State fish and wildlife agencies for this important effort. That concludes my statement and I appreciate the opportunity to testify before your committee today.

[The prepared statement of Mr. Lapointe appears at the conclusion of the hearing.]

Mr. STENHOLM. Thank you, Mr. Lapointe. Ms. Goldman-Carter, you may proceed.

STATEMENT OF JANICE L. GOLDMAN-CARTER, COUNSEL, FISHERIES AND WILDLIFE DIVISION, NATIONAL WILDLIFE FEDERATION, ALSO ON BEHALF OF THE IZAAK WALTON LEAGUE OF AMERICA

Ms. GOLDMAN-CARTER. Thank you, Congressman Stenholm, and good afternoon. The National Wildlife Federation truly appreciates the opportunity to present our ideas and concerns as you formulate your plans for the 1990 farm bill. I should mention that our testimony is also presented on behalf of the Izaak Walton League. While the NWF and the Izaak Walton League are concerned about all of the soil and water conservation issues raised in the farm bill to date, we are particularly concerned about the alarming and unacceptable, in our view, rate of wetlands lost in this country, and the large proportion of the loss which is attributable historically to agricultural conversion. Between the 1950's and the mid-1970's, 87 percent of the wetland losses nationwide were attributable to agricultural conversion.

In light of that, our testimony, which is rather lengthy, our written testimony describes the acreage, types and functions of wetlands threatened by agricultural conversion, addresses those threats to wetlands on agricultural lands, points out the limitations of existing programs for wetlands protection with particular emphasis on the work that our prairie wetlands office has done on the swampbuster program in the prairie potholes, and then suggests in general terms some legislative solutions for effectively protecting and restoring wetlands on agricultural lands.

Most of these measures we feel should be included and are appropriate for inclusion in the 1990 farm bill. First, in our view, the existing programs for protecting wetlands simply are not adequate to protect what we estimate to be the approximately 10 million or so wetlands most vulnerable to agricultural conversion. Each of the three basic wetland protection program areas have some kind of serious flaw.

First, existing conservation easement and fee title acquisition programs, particularly as presently implemented and funded, are not adequate to protect even these most vulnerable wetlands. An optimistic projection might be that about 2 million wetland acres might be protected from agricultural conversion over the next 10 years through the combined effects of the CRP, the Water Bank, Farmers Home Administration, easement authorities which came out of the 1985 farm bill, and the Fish and Wildlife Service land acquisition program. To provide greater economic incentives for private stewardship, the 1990 farm bill should either modify and expand existing easement and fee title acquisition programs or create a new wetlands reserve that would compensate landowners for keeping wetlands on agricultural lands permanently and for restoring previously converted wetlands.

Second, the swampbuster provisions of the 1985 Food Security Act, while a major step forward for wetlands conservation, really only discourages, but does not prohibit agricultural wetlands conversion. Indeed, swampbuster really only works with those agricultural producers who rely heavily on commodity program subsidies. Even in those situations in which swampbuster could strongly deter wetlands conversion to crop production, it has not done so due to poor implementation, particularly on the part of the ASCS county and State committees. Swampbuster as it is currently written and implemented will not be the answer to conversion of wetlands to agriculture. The 1990 farm bill, we feel, should strengthen swampbuster by giving the Fish and Wildlife Service a primary role in swampbuster compliance determinations, by making producers ineligible for benefits upon wetland conversion regardless of whether a commodity crop is subsequently planted on the converted wetland, and by encouraging and facilitating the participation of environmental organizations and concerned citizens in the program. This is not the time, in our view, to weaken swampbuster, and we strongly urge this committee to continue to support a strong swampbuster program.

Third, the Clean Water Act, section 404 permit program, as currently administered by the Corps of Engineers generally does not regulate discharges that accompany the drainage, ditching, excavation, and clearing of wetland vegetation. So many agricultural conversion activities simply are not regulated under that program.

In fact, ongoing agricultural, silvicultural, and ranching activities are clearly and expressly exempt from the permit program. While the Clean Water Act, section 404 program, is not the subject of this hearing, the committee should not overlook the importance of a strong Federal permit program in preventing the agricultural conversion of wetlands. To remedy the weaknesses in the 404 program we do recommend amending the 404 to expressly state President Bush's national wetlands policy goal of no net loss and a long-term increase in the wetlands base and to amend 404 to cover the drainage and clearing activities in particular that are the source of many of the agricultural conversions.

While ongoing agricultural, silvicultural and ranching activities would continue to be exempt from regulation, the conversion of wetlands to new land uses should require a 404 permit. Through this combination of strategies, easements, and acquisition programs for landowners, to encourage landowners to keep wetlands on their land, a strong swampbuster program to withhold commodity program payments that encourage wetland conversion, and a strong 404 program coupled with increased research, planning, and particularly public education efforts, which have been recommended by the National Wetlands Policy Forum and others, we can stop the loss of our Nation's wetlands and begin to restore some of the past losses.

NWF would like to work with this committee to address the problem of wetlands conversion in the 1990 farm bill, and we thank you again for the opportunity to present our views.

[The prepared statement of Ms. Goldman-Carter appears at the conclusion of the hearing.]

Mr. STENHOLM. Thank you, Ms. Goldman-Carter.

Next, Ms. Nassauer.

STATEMENT OF JOAN I. NASSAUER, PROFESSOR, DEPARTMENT OF LANDSCAPE ARCHITECTURE, UNIVERSITY OF MINNESOTA, ON BEHALF OF THE AMERICAN SOCIETY OF LANDSCAPE ARCHITECTS

Ms. NASSAUER. Mr. Chairman, I am a member of the American Society of Landscape Architects and a professor at the University of Minnesota, department of landscape architecture. I am here today to talk about the potential for realizing aesthetic benefits from the 1990 farm bill. I mean aesthetics here very broadly. People take pleasure and satisfaction in the way the rural landscape looks, sounds, smells, and even how it feels to drive or ride through the rural landscape.

For the purposes of the 1990 farm bill, I would suggest thinking about aesthetics in two ways. First, scenic quality. These are the landscapes that have rolling hills, fields, forests, and meandering streams. The kind of landscapes that we know from postcards and pictures. Second, there is another kind of aesthetic quality that is special to the rural landscape, and this is the beauty of good stewardship. People like the look of land that is well cared for.

In the 1990 farm bill, we could protect scenic quality on some rural landscapes and we could create aesthetic quality by making the look of good stewardship more vivid on American farmland. The 1985 farm bill failed to address aesthetic benefits. This was a real loss of opportunity because at the same time as habitat was being created, as soil and water were being conserved on the 30 million acres that are now enrolled in the conservation reserve, or on easements entitled under title XIII, at the same time, on the same land, with the same materials, aesthetic benefits could have been realized.

We hope that in the 1990 bill this opportunity will not be missed. Aesthetic conservation, we think, could affect farmer participation in conservation programs in 1990. I want to address this on three levels. First, farmers care about the way their land looks. It reflects on them. The way conservation was implemented under the 1985 program, reserve parcels can look neglected, messy, weedy, even though they are accomplishing their ecological purpose. If aesthetics were also considered in the design and implementation of these parcels, farmers and their neighbors would have land that they could be proud of, and we think that adoption rates would increase.

On a second level, another objection that has been raised to the 1985 program is that it failed to reward the so-called good farmers, those that had never put their fragile lands under cultivation. Those scenic lands that I was talking about have often been cultivated very selectively. The farmers have respected the constraints of topography and soils. Those lands could be put into a slightly different kind of conservation reserve for aesthetics. These would be lands that have no crop base history but that we all realize aesthetic benefits from.

On the third level, the beauty of good stewardship does not require that all land in a field be taken out of production. The integration of landscape features in a field for conservation—like riparian corridors or like hedge rows—with production can often accomplish greater aesthetic purposes because people recognize that kind of good stewardship. In Minnesota where I live, strip crop fields are recognized as some of the most beautiful landscapes in the State. Some economic production, could on some kinds of conservation parcels, in fact, increase their aesthetic quality.

Including aesthetic benefits on any or all of those three levels would result in all of us, all of the taxpayers, receiving greater benefits for the conservation dollars that are spent in the 1990 farm bill.

Also in the written testimony, we discuss aesthetic conservation related to rural economic development through tourism. It is related to the quality of life in adjacent communities. Finally, aesthetics are related to concerns about global warming because it creates a more integrated landscape pattern that provides some cushion against the potential of changing climatic effects.

Our overall purpose is simply to realize an additional benefit from the conservation dollars that will be spent in 1990, and we would like very much to work with the committee in accomplishing those goals. Thanks very much for the opportunity to talk with the committee today.

[The prepared statement of Ms. Nassauer appears at the conclusion of the hearing.]

Mr. STENHOLM. Ms. Nassauer, you said it in such a nice way. I had never thought about the aesthetic value of a program, but I could not help but think of some of the problems that we now have which should not be there because the CRP lands are supposed to be maintained, and clearly some of the biggest constituent problems that I am finding associated with CRP is when the participant does not keep the weeds from expanding onto his neighbor's land.

Ms. NASSAUER. Yes.

Mr. STENHOLM. So you have put it in a nice way, something that we need to consider. It is called being a good neighbor.

Ms. NASSAUER. That is right.

Mr. STENHOLM. I thank each of you for your testimony today. Your testimony will be extremely helpful to us. You have undoubtedly gone to a lot of work already and are making some concrete proposals, and this committee certainly will be entertaining them. Thank you very much for being here.

Ms. NASSAUER. Thank you.

Mr. STENHOLM. Is there any remaining witness who has a scheduling problem? I would be willing to hear you now if anybody has a schedule conflict. Hearing no one, the committee will stand in recess until at least 2 o'clock. Thank you.

[Whereupon, at 1:10 p.m., the committee recessed, to reconvene at 2:30 p.m., this same day.]

AFTERNOON SESSION

Mr. STALLINGS [acting chairman]. Ladies and gentlemen, we would like to get the last two panels completed. The action on the floor will probably continue to disrupt what we are doing here, but I suppose that is the way it is meant to be. Our fifth panel includes Ms. Jane Shey, director of governmental affairs in the Corn Refiners Association in Washington; Mr. E. Linwood Tipton, president, Milk Industry Foundation and International Ice Cream Association, also in Washington; Mr. Evans Plowden, general counsel, Southeastern Peanut Association from Albany, Georgia; and Mr. Thomas A. Hammer, president, Sweetener Users Association, in Washington.

Ms. Shey, if you would like to begin.

STATEMENT OF JANE E. SHEY, DIRECTOR, GOVERNMENTAL AFFAIRS, CORN REFINERS ASSOCIATION, INC.

Ms. SHEY. Thank you, Mr. Chairman. I would like to ask that the complete text of my statement be submitted to the record.

Mr. STALLINGS. Without objection.

Ms. SHEY. OK. In return, I will abbreviate my remarks.

Mr. STALLINGS. Thank you very much.

Ms. SHEY. We appreciate the opportunity to discuss with the committee some thoughts on the 1990 farm bill. Corn Refiners Association, Inc., is based in Washington, and is a national trade association representing the corn refining industry in the United States. Our companies are producers of sweeteners, starches, feeds, oil, and alcohol made from U.S. corn.

Last year our industry purchased and processed nearly 1 billion bushels of U.S. corn. As the committee looks ahead to the trade title of the 1990 farm bill, we would like to suggest that a greater emphasis be placed on high value-added agricultural products. We have included a number of facts and figures in our written testimony that illustrate the changing demand for bulk commodities and processed agricultural products in the world market. We would, however, like to point out one key figure. Through aggressive marketing and subsidized exports of processed products, the European Community has captured 50 percent of world trade in value-added agricultural products.

In comparison, in calendar year 1987 the U.S. accounted for 33 percent of world trade in bulk agricultural commodities, but only 7 percent of world trade in consumer oriented high value products. At a time when all of us involved with agriculture are concerned with the growth and development of our rural areas, increasing value-added exports offer some real alternatives.

If the commodity is purchased after leaving the farm, much of the work will be done in a local community which increases the ripple effect of agricultural production beyond a local elevator and seed dealer. For every dollar of high value product exported, another $4.20 is pumped into the economy in terms of extra farm inputs, processing, transportation, and other costs. We would like to suggest several avenues that may be worth pursuing.

First, the Agriculture Committee may want to hold hearings on value-added exports, bringing in the expertise of Government agencies, private industry, producer groups, and labor unions. Following the hearings, the suggestions of the various organizations could be incorporated into a value-added agricultural title for the 1990 farm bill. The Agricultural Technical Advisory Committee which has just been organized through the High Value-Added Division of the Foreign Agricultural Service could conduct a study to determine the most effective role for the Federal Government in assisting private sector exports.

The results of the study could be presented to Congress as a guideline for strategy on value-added agriculture. The committee may also want to explore the feasibility of a value-added Export Enhancement Program. We would like to elaborate briefly on the EEP program. If the United States is forced to discontinue EEP because of reduced domestic supplies, increased world price and budgetary constraints, the continued use of a smaller targeted value-added EEP would serve the purpose of maintaining pressure for negotiating agricultural trade liberalization and ensure a continued presence in some of the highly subsidized markets.

It is important to note that with the value-added EEP, we do not face an either/or situation whether we either send the bulk commodities overseas or the processed products. We need the raw materials to produce the processed agricultural products. When 4.5

pounds of corn gluten feed are sold overseas, that amounts to an export of 56 pounds of U.S. corn.

We feel that there are significant benefits to be accrued from a more aggressive and visible value-added export strategy. Increased exports of processed agricultural products will not only benefit our farmers and small rural communities, but it will generate new jobs and revenues in the manufacturing sector and improve our balance of trade. Value-added agricultural exports is a win/win situation for all the players involved. We hope that the committee will give serious consideration to continuing the development of this strategy in the 1990 farm bill.

[The prepared statement of Ms. Shey appears at the conclusion of the hearing.]

Mr. **Stallings**. Thank you, Ms. Shey, for excellent comments.

Our second witness, Mr. Tipton, president of the Milk Industry Foundation and International Ice Cream Association, if you would like to proceed.

STATEMENT OF E. LINWOOD TIPTON, PRESIDENT, MILK INDUSTRY FOUNDATION AND INTERNATIONAL ICE CREAM ASSOCIATION

Mr. **Tipton**. Thank you very much. I assume the record will contain the full statement.

Mr. **Stallings**. Yes, without objection.

Mr. **Tipton**. Thank you. We have about four points that we would like to talk about, Mr. Chairman. I would like to talk a bit about the need for stability in the Dairy Price Support Program and long-term solutions. I would like to talk a little bit about the maintenance of an adequate supply of milk for our needs currently and those in the future, the need for the program to be market-oriented, the need for flexibility to reflect changing technology that is occurring at a very rapid rate in the dairy industry, and finally the need to provide an opportunity to participate in the expanding world markets.

First, talking a bit about the stability and long-term policy. The dairy industry for a number of years had been confronted with a situation of very short-term policies using assessments, using paid diversions to take dairy cows out of the herd and finally a whole-herd buyout that actually eliminated entire dairy operations from the industry.

Those situations created severe problems in the industry and often very conflicting messages. For example, frequently when the support price was reduced, dairy farmers were paid to either exit entirely or partially from the industry. This created such distortions and shortages in certain areas that the prices that were actually paid to dairy farmers went up very substantially.

So we had very high prices while at the same time paying substantial sums of money to encourage people to exit. We hope that we have seen the end of those kinds of policies and that the policies of the future will be more in line with the 1985 farm bill which actually established a much longer term approach and we would like to see that continued.

We believe milk supplies are going to be adequate. The cost of producing milk has been going down for some time with the exception of this past year probably with the drought, and that is kind of an aberration in the long-term trend. But otherwise the cost of producing milk has been going down. One of the primary reasons it has been going down is because of the efficiency of the dairy industry. Milk production per cow has been increasing at a rate of 2 to 3 percent, and we expect that to continue and to even accelerate.

Being market-oriented we hear the term very frequently, but I would like to spend just a couple of minutes talking about what I really mean by market-oriented. In the past few years, the cost of dairy products or the prices of dairy products to consumers have gone up very gradually, and at considerably less than half of the rate that has been applied to other commodities such as meat, poultry, and bakery.

Primarily as a result of that, milk consumption has increased very substantially in the last several years. We believe that being market-oriented is providing an adequate supply at as low a price as it can be competitively offered and still maintain income to dairy farmers at a reasonable rate, and by doing so, we increase the volume of sales. That has been the case, and we would hope that would continue to be the case. Part of the increase in sales, I am sure, is attributable to the advertising of dairy products, but an awful lot of it has been a result of really making dairy products competitive with other foods. This has encouraged an enormous amount of investment by the rest of the industry.

For example, dairy farmer advertising programs amount to about $200 million per year, but the amount of money spent by the processing sector of the dairy industry is about $1 billion a year. An awful lot of people have a tendency to talk about the generic advertising program, but forget the rest of it. Being market-oriented and with the good value that dairy products have been, there has been an enormous amount of innovation in the last several years. In 1980, there were 68 new dairy products according to New Dairy Products Journal introduced in the United States. In 1988, there were 600 new products that were introduced so market-oriented means permitting the industry to be competitive in a lot of areas.

One more comment and I will stop. We are expecting some enormous changes in technology over the next few years. The increase in milk production per cow has been approximately 2 to 3 percent in the last few years. We expect that to go up to possibly as much as 5 to 9 percent, and we hope that that gets reflected in the program for the 1990 farm bill. Thank you, sir.

[The prepared statement of Mr. Tipton appears at the conclusion of the hearing.]

Mr. STALLINGS. Thank you, Mr. Tipton. We appreciate those comments.

Our third witness, Mr. Evans Plowden, general counsel, Southeastern Peanut Association. Mr. Plowden, if you would like to proceed.

STATEMENT OF EVANS J. PLOWDEN, JR., GENERAL COUNSEL, SOUTHEASTERN PEANUT ASSOCIATION

Mr. PLOWDEN. Thank you, Mr. Chairman. My name is Evans Plowden. I'm general counsel for the Southeastern Peanut Association. We are a trade association made up of all but two of the commercial peanut shellers operating in the southeastern United States. Our members in the Southeast handled over 60 percent of the quota peanuts in the United States and approximately 80 percent of the commercial additional peanuts.

I want to take this opportunity to thank both the committee and Congressman Rose and my own Congressman Hatcher for the assistance that they have given us in the past years both in the 1985 bill and in preparing for this bill. In our opinion, the legislation written by this committee and passed by Congress as the Food Security Act of 1985 was and is an excellent piece of legislation. By and large, it has accomplished its objectives. Growers have been given a stable situation in which to make a decent profit. Manufacturers have been given a stable supply of quality peanuts and shellers have been granted additional flexibility to operate in the world market.

All of this has been done at virtually no cost to the Government. American consumers receive quality peanut products at a reasonable price. The economy of our area, southern Georgia, southern Alabama, and northwest Florida, while not in particularly good shape now, would undoubtedly be much worse without the Peanut Program you passed in 1985.

Mr. Chairman, I know you recognize that the basic key to the present Peanut Program is the two-price system of peanuts created back in the 1970's. We as shellers recognize that having two classifications of peanuts, quota and additional, priced differently is necessary to control Government cost.

However, we should be aware that in order to make that program work, the burden of policing has by and large fallen on the shelling industry. We recognize that we must play that role and while it is not one we enjoy, we realize we must shoulder it. Because of the role we play, Mr. Chairman, our concerns about the Food Security Act of 1985 as well as the 1990 farm bill tend to be focused upon creating a mechanism to allow the handling and export of additional peanuts with less complication and more potential for increasing exports.

Congress in 1985 took a giant step toward accomplishing that goal by the passage of what we refer to as nonphysical supervision of the handling of contract additional peanuts. By all accounts, those provisions have worked exceedingly well. Our association supports the present Peanut Program generally. We do think that it can be substantially improved by fine-tuning several provisions of the 1985 act.

I emphasize that these are not major changes insofar as the overall concept of the act. However, they can be major when applied to our segment of the industry. And we believe generally would enhance the prospect of American peanuts being sold overseas. I will not elaborate on all those matters since they tend to be technical and are in my written statement.

However, one is so important that I must mention it. From our standpoint, the most important change needed is the allowance of a realistic shrinkage for shellers' contract additional export obligations. At present handlers of substantial amounts of additional peanuts must export significant quantities of quota peanuts to fulfil their obligation. This is a large financial detriment and tends to inhibit peanut exports. We believe that the present shrinkage allowance allowed by the Department is grossly inadequate and not consistent with the intention of Congress in the 1985 act.

Again, Mr. Chairman, since most of our concerns are technical, I will not repeat the rest of them here. I will simply say that we appreciate the cooperation of this committee. We appreciate the 1985 act. We support it with some fine-tuning. I will be happy to respond to any questions.

[The prepared statement of Mr. Plowden appears at the conclusion of the hearing.]

Mr. STALLINGS. Thank you, Mr. Plowden.

Our final witness in this panel, Mr. Hammer. You heard the bells. We do have a vote on, but it is the intention of the committee to continue with the hearing. Chairman de la Garza said he would be back to pick up. So if you would like to continue, take your time now, Mr. Hammer, we would appreciate hearing from you.

STATEMENT OF THOMAS A. HAMMER, PRESIDENT, SWEETENER USERS ASSOCIATION

Mr. HAMMER. I assume that my statement will be contained in the record so I will just touch upon some of the high points that are in our statement.

Mr. STALLINGS. Thank you, yes. All of your full statements will appear in the record.

Mr. HAMMER. Thank you. The Sweetener Users Association strongly supports legislative modifications to the current Sugar Program. I will not go into the operation of the 1985 Sugar Program. It is well-known to this committee, but I would like to make a few comments. First of all, the market stabilization price for the 1988-89 season is about 21.8 cents a pound. Currently, raw sugar is trading in excess of that. But the market stabilization price effectively establishes the minimum price for raw sugar in the United States.

The domestic raw price for sugar there is between 23 and 24 cents now versus a world price which has been ranging in recent days and weeks between 12 and 14 cents. This currently is translated into a domestic wholesale refined sugar price of somewhere in the neighborhood, depending on whether in the Midwest or California, in the neighborhood of 29 to 32 cents per pound. I would like to point out that according to a USDA situation report just published in June of this year, that is approximately 6 to 8 cents higher than it was 1 year ago. So we are definitely not involved in a stable situation as we would have expected to have under this program.

In order to achieve the market stabilization program, or the market price objective, the Secretary has to implement highly restrictive import quotas, and it is well-known to this committee that sugar input quotas have been reduced by about 75 percent since 1982. Last year they were pushed back up to over 1 million tons. Yesterday we had the crop report issued. It only reveals acreage and not yields, but based on what we see in that, we expect a 2-percent increase in acreage in cane and perhaps as much as a 1 percent harvested acreage in beet, and we see we are back on the way to recovery and many analysts are predicting that the import quota may fall as low as 700,000 or 750,000 tons for next year. If that trend continues, we will be out of quota sugar in the not too distant future.

I think this question definitely calls into question the sustainability of the program as currently operated. A recent GATT decision has also called into the question the sustainability of the Sugar Program. I will not go into that. I know that has been a topic of debate in this committee, but although the timing of subsequent steps taken by the United States is inexact, eventually changes must be made to the Sugar Program in order to comply with GATT rules.

A look at the Sugar Program for 1 minute. On the face of it, it would appear that the 1985 Sugar Program has done its job. It has supported domestic prices some 4 percent above the statutory minimum of 18 cents. And it appears to have done at least so at no direct cost to the Federal Government.

But in spite of repeated assurances to this committee in 1981 and again in 1985 that the 18 cent was merely a minimum safety net that sugar growers needed to survive and that there would be no increases in production, I think we can see that that has not been the case.

In view of the fact that we are supporting domestic sugar growers according to USDA information at a level that exceeds their full production cost including returns to land and capital, it is no wonder the domestic industry is expanding. Most of the industry, we believe, could compete under a lower support level, and it is very much to the industry's credit that it has become efficient and reduced its cost dramatically since the 1985 program.

But there is no way for the existing legislation to adjust for this change. I will not go into the detail, but obviously it is known to this committee that what you do in one crop can easily affect what is happening in another crop. Sugar growers receive program benefits or price protection without incurring any of the program obligations that producers of feed grain, wheat, rice, and cotton must accept in order to be eligible for price and income protection.

We have also attempted in our statement to make some general comparisons in certain areas. We could do so for other production areas as well. But for example, sugar beets grown in the Red River Valley have yielded $643 per acre versus about $177 for corn. And we can see similar situations in other growing areas.

[The prepared statement of Mr. Hammer appears at the conclusion of the hearing.]

Mr. Stallings. Thank you, Mr. Hammer.

Mr. Marlenee. Mr. Chairman.

Mr. Stallings. Yes.

Mr. Marlenee. Mr. Hammer.

Mr. Hammer. Yes, sir.

Mr. **Marlenee**. If we drop the price of sugar by action of the Ag Committee to 14.5 cents as you indicate on page 10, or 12 cents, as was indicated on another page here of your testimony, would your users guarantee a drop in the price of their retail commodity by the same percentage?

Mr. **Hammer**. That is an excellent question, and it is one that is often discussed. Let me point out first if we were to drop—as you know we have supported legislation that would drop essentially the raw price by 6 cents over a period of 4 years.

Mr. **Marlenee**. OK.

Mr. **Hammer**. If we were to do that today, we would not be back to the price that we were paying for wholesale refined 1 year ago.

Mr. **Marlenee**. That is not the question I asked you. I asked if you would drop your retail price——

Mr. **Hammer**. I understand that. I understand that.

Mr. **Marlenee**. By the same percentage?

Mr. **Hammer**. But one needs to look at what is happening in the marketplace. Yes, I think that USDA has said that for 40 percent of the market that is raw sugar sold, refined sugar sold to the consumer in the form of sugar, can be traced almost immediately in 2 to 3 months. We also can show you with some lag that commodity prices, including sugar, up and down are reflected in the price of the processed product. The answer would be yes.

Mr. **Marlenee**. I would like to see a guarantee that you will drop your retail prices if sugar users will drop their retail prices by the same percentage that the price of raw sugar comes down. I do not know what your percent of profit is in the sugar users industry.

Mr. **Hammer**. I could not furnish that to you here.

Mr. **Marlenee**. Generally across the board on the cost of inputs and on a cost of a product the businessman would figure that he had to have a 20-percent profit. What is the cost of production of raw sugar?

Mr. **Hammer**. The USDA statistics which we have to go by because we obviously do not have access to this would show that for refined raw sugar in 1986 and 1987, which is the last data that they have, that is some 2 to 3 cents below the 21-cent market stabilization price.

Mr. **Marlenee**. I think the price of raw sugar or the cost of production of sugar is about 19 cents. Yet you are advocating a 12 and 14 cent price of sugar without any profit margin. Are you advocating shutting down the U.S. domestic market and the mills?

Mr. **Hammer**. Well, the raw sugar right now is at 23.3 cents a pound. If you were to drop that by 1½ or 3 cents, you would be down to about 20 cents. And obviously if you dropped it the full 6 cents, you would be down to a 17-cent raw sugar price. I think that would still compare——

Mr. **Marlenee**. Below the cost of production. That would be below the cost of production.

Mr. **Hammer**. The question then would be for this committee, I believe, is to whether or not it is the role of farm programs to fully cover all costs including land and capital, or whether it should be a safety net?

Mr. **Marlenee**. Thank you.

Mr. **Huckaby** [acting chairman]. Mr. Hatcher.

Mr. HATCHER. No questions.

Mr. HUCKABY. The Chair would like to engage in a colloquy with the panel. Welcome. I apologize for not hearing all of your testimony. As you know, the Agriculture Committee has been involved in a bill on the floor this afternoon. Mr. Hammer, Mr. Tipton, certainly welcome to the committee. Ms. Shey.

USDA and this committee have been intensely involved, as we are having to seek to arrive at some $600 million in budget cuts, looking at cost of production of the various commodities from oats to corn to cotton, rice, all the commodities that we support, and of course, one of the benchmarks we are using is the USDA cost of production figures for all the commodities.

USDA's cost of production for cane sugar, 19.2 cents a pound. For beet sugar, 19.9 cents a pound. Latest data that we are using. And might I point out that the farmer, as I am sure you are aware, actually receives less than 18 cents a pound for his sugar. He does not receive the MSP price. This includes, as you know, transportation and interest charges. And there seems to be a consensus, a movement within the committee, to perhaps somewhat equalize and to see that all commodities are treated fairly. We have looked back at some of the results of the 1985 farm bill, and we see that oats, for instance, have been severely penalized, and as a result of that, there is a massive shortage of oats produced in this country today.

And the price of oats has skyrocketed. Yet we have a Sugar Program where the support price is relatively close to the cost of production, what the farmers are receiving. Our farmers are doing OK in the sugar industry. I will be the first to admit that. I think if you looked at the return on investment, return on value, return on equity, any measure of profitability that you wanted to use, for perhaps even our most efficient sugarcane farmers or sugar beet farmers, they probably could not stay in the same room or come up to the same table with some of your members of the sugar users group such as your soft drink industry, which we know Fortune and Forbes tells us year after year, they are the most profitable of all profitable industries in America.

So what I want to suggest to you that with the GATT rulings and the fact that there is world concern about the United States Sugar Program, and it is my opinion that the Australians really came after the Americans have, if I might use that expression, because they felt that the Americans would cooperate with them to some extent because we do want some agreements, agricultural agreements in GATT, rather than the Europeans who I and many other members of this committee feel is the real culprit, but clearly we are going to have to make some changes in the Sugar Program.

From your point of view, is there anything, anyway that your organization could try to work in harmony with the other segments of this vertical industry? Is there any common ground to be found such as similar in other industries whether it be wheat, wheat flower, selling segments of cotton as we work to develop an industry, a sugar industry, because it is my opinion that it is the consensus of Congress that as long as the European Economic Community is dumping the massive amount of sugar that they are, and international studies are indicating that the world market price would be higher than our support price if the Europeans would just quit dumping, that the Europeans and even Ms. Hill seems to have reversed her position, and says that we are not going to abandon the sugar industry. So with this scenario, with those thoughts, do you have any suggestions of any way we might work together to develop a sugar industry rather than being at loggerheads?

Mr. HAMMER. Well, Mr. Chairman, as I think you know we reconstituted ourselves about 2 years ago as an association, and we have been working for modifications in the Sugar Program in the last several years. We are eager to work with the industry and to find a way that there will not be as much division within the industry. I think one way we can do that is to try to come together on some facts. We look at the situation and we see that the current support price, we think, has been an incentive to produce when the market signals have not necessarily be sending that same signal.

I think there is perhaps more common ground than you might imagine. We do not want to see the ruin of the domestic industry. They are the people that sell to us. We are their major customers, but the common ground that we would hope that we could see is some indication that perhaps back in 1981 and then in 1985, when we set the minimum support price, that there have been some changes in the marketplace that would reflect that perhaps some lesser minimum support price may keep efficient and cost conscious growers who have to their credit done a tremendous job in lowering their costs over the last 8 years in business.

But the common ground that we would hope that we could seek is at least some indication that we may be able to lessen the support price and still keep a viable industry. We are paying, as you may know, 6 to 8 cents more this year for our sugar than we were 1 year ago. If we fully implemented our 6-cent reduction, the bill that we have been supporting over the last couple of years, we would still be in parts of the country paying more for sugar today than we did last year.

The question was asked earlier will you reflect that 6-cent reduction, the answer is we have been doing our darnedest not to have to raise prices with the price increases that we have seen in wholesale sugar this last year. And the true answer is if we could get 1½ cents off for several years, it may allow us to pay the wage increases and other things that we do without having to increase our product cost. Yes, if we saw all of our other costs go down, it is a very competitive industry. There are 25,000 food companies out there trying to take business away from one another, and if we could, we would like to keep it all. But the marketplace would not allow us to do so.

But the common ground that we would hope we can look for—this is essential to talk about whether or not it is absolutely essential that we maintain the minimum raw support price at 18 cents, or whether there is some way in which we might get that modified.

Mr. HUCKABY. If we moved in the next farm bill to equate the support prices of all commodities into some percentage of the cost of the production so that the peanuts, sugar, honey, cotton are all equivalent in relationship to their profitability, this safety net, and keep in mind that the USDA's numbers are based on averages so that the efficient do better, where the inefficient are still forced out of business, some of them, when you operate on the average, could your industry then support this?

Mr. HAMMER. I think that would go in the right direction. I cannot agree without knowing what we are talking about and the data base that we are using. Yes, I think that is the right way to go. For example, you may see in my testimony we used USDA data, the best that was available to us, and we tried to provide a comparison for returns that we see in one State versus another among competing crops. We did not do them all, but we could, and could furnish them to the committee.

But using USDA data and factoring in to the crops that do receive deficiency payments, we came up with some fairly disparate figures. For example, in the Red River Valley sugar beets were yielding total revenue after variable costs $643 an acre. The next closest one to that in that area was corn at $177. So I think there is reason to look at the interrelationship and the manner in which we are treating one commodity versus another commodity.

Mr. HUCKABY. But of course being a businessman you certainly recognize you got to compare profitability or return on investment. One cannot look at gross receipts.

Mr. TIPTON. Mr. Chairman, could I add a comment to that?

Mr. HUCKABY. Mr. Tipton.

Mr. TIPTON. I think one of the other elements that one must look at when you are looking at costs is not just the cost of sugar. There is a tremendous variability of the cost of producing sugar, as Mr. Hammer has already pointed out in various areas. But in addition to that, the Sugar Program is providing protection for a significant supply of sweeteners in the form of high fructose corn sweeteners. And the cost of producing high fructose corn sweeteners from the best data that we have available is substantially less than the price that the Sugar Support Price Program is established at.

So if one is going to start looking at cost, then it seems to me that one must look at the cost of the sweetener industry because that is what really is supplying the total sweeteners for the United States.

Mr. HUCKABY. You make a very good point, Mr. Tipton, and of course, as we have seen the corn sweeteners capture 50 percent of the market in this past decade. And certainly that is the American system, and we are not trying to control that here on the Agriculture Committee. But the Europeans are supporting sugar at what level today—do you know?

Mr. TIPTON. The Europeans?

Mr. HUCKABY. Yes.

Mr. TIPTON. I do not know. Do you know, Tom?

Mr. HAMMER. I could furnish that to you. It is roughly equivalent to a little bit above the support price that we are holding.

Mr. HUCKABY. I understand it is like 29 cents a pound.

Mr. HAMMER. Well, you have two classes of sugar there. One class is not supported or supported at a much lower level, and one is. So it depends on whether you are looking at "a" sugar or "b" sugar.

Mr. HUCKABY. Right.

Mr. HAMMER. And I guess a blended price apparently brings that down closer, from what I understand.

Mr. **Huckaby**. But significantly higher than the United States. As a result, we have seen them in the last decade go from importers to the largest exporters in the free world of sugar. I guess our position is if they would just quit dumping the surplus sugar, we think that the world price would rise above the U.S. support price, and you folks then would be very happy to have a stable U.S. industry in place, rather than no industry at all, which is what we would have at 12 or 14 cents, in my opinion, if you look at the cost of production numbers. I have no further questions.

I yield to the gentleman from Minnesota.

Mr. **Stangeland**. Thank you, Mr. Chairman. I apologize for being late, and I am sorry that I could not hear the testimony of the panel because I am sure that it was very interesting, and I regret that we have a very strong difference of opinion. And had I been able to hear the testimony, I think I might have been able to ask some more intelligent kind of questions. But I do have one that concerns me, and it directly affects the congressional district that I represent.

Mr. Hammer, on page 6 of your testimony you state that sugar beet growers in the Red River Valley earn $643 per acre after accounting for variable costs in 1987. Unfortunately, you took far and away the best year that we have ever had in sugar beet production in the Red River Valley. They far exceeded returns realized in 1985–86, and estimated 1988 by more than $200 per acre. So you took a real good classic example to use.

But I think what you ought to realize and what ought to be made part of the record is that those farmers put up some 500,000 acres of rich Red River Valley land in sugar beets. Land value in 1987 about $850 an acre. Those farmers also cooperatively own seven beet sugar factories with a current insured value of $1.1 billion. The farmers own it. So their residual return to management and risk for that crop was $383 per acre, a total $191,510, balanced against a total value of their land, $425 million, and factories at $1.1 billion, they earned 12.5 percent for management, risk, and substantial investment in the best year they ever had.

Now I guess I would just like to wonder why they are not entitled to that kind of a return and certainly far and away the best return, in 1 year that they ever had or probably ever will have? And had they sold their land and their factories and taken the $1.1 billion and bought shares in some of the major industrial users, what kind of return could they anticipate based on the performance of those companies in 1987–88? I would like to have you provide that for the record.

Frankly, I think I would like to remind my colleagues that the earnings from the shares in Mr. Hammer's client company stocks would come to these farmers a lot easier than raising sugar beets at high risk on the Red River Valley land. And it would seem to me that they are entitled to invest their money the way they see fit, and they are entitled to recover on that investment at least somewhat equal to what the same kind of investment would bring if they were investing it in corporate stocks. Is that not a fair statement?

Mr. **Hammer**. I guess one of my comments would be that I happen to be—stocks are not without risk either. You will remember back to October 1987. Everyone is free to make whatever investment choices they would like to make, Congressman, and I would also state that we are not begrudging profits to anyone. We are not suggesting that we want to see the diminution of the crop, but I think what we are saying is that we need to examine the facts to see whether or not we have, in fact, set what was supposed to be a minimum safety net, which would guard these growers against downside risks that they may not have any control over, or whether or not we set the level at a level which does, in fact, protect more than full economic recovery including capital and land and management return. I am not certain that that was meant to be the function of a Federal Farm Program.

Mr. STANGELAND. I do not know that it was meant to be the function of the Farm Program. But the Farm Program in no way—no Federal Government program can recognize excellent crop years as opposed to poor crop years. It is an average. I notice further in your testimony that that same year sugarcane in Texas provided $331 per acre, but sugar beets only $173. And so if you are going to equalize out a Farm Program to bring down the return to the farmers in the Red River Valley growing sugar beets, you are probably forcing out the sugar beet producers in Texas. I would expect that one year we may have a bad year in the valley, and those sugar beet farmers will get substantially less.

In fact, they may not have enough to cover their obligations and liabilities, while those beet farmers in Texas may experience an excellent year and see that their returns rise. When you have a national program, that is what you have. You have some people get the luck of the draw or the roll of the dice or the weather and the gods looking on them and have a good return.

I think, too, for you and for Mr. Tipton and for all of the users of sugar, and I am sorry I did not hear what my chairman had to say because he generally is extremely enlightened on the subject, and talked about what would we be without a program, and the fact that this program assures the users stability. But I like to think back when we hear of all these high cost to consumers and the unfairness of the Sugar Program, when we were sans a program and we saw prices go dramatically high for sugar, the price of those products using sugar, Coke, Pepsi-cola, candy bars, all astronomically went up with sugar. Maybe the candy bar did not go up, but the size of the bar went down.

When the price of sugar then dropped drastically, what happened to the price of those products? They did not come down 1 penny. You all know that there is about 3 cents worth of sugar in a candy bar, and if the candy bar maker had the sugar free, that candy bar price would not come down 3 cents. It would not come down 1 penny. So I think all of your concern about the Sugar Program, you know you have a program that puts stability into a domestic commodity for growers. You have a commodity or you have a program that puts stability in the prices for consumers.

The average per capital expenditure for sugar for the table in this country is $5 per capita. If you gave the consumer sugar free his market basket would go down just a minuscule amount. And yet if you take out the Sugar Program, you got areas of this country—the area around Lake Okeechobee in Florida where once you get outside the Okeechobee area and get into the frost danger area, they raise vegetables.

I do not think they can raise any more vegetables down there so I do not know what they are going to do with that land if they cannot produce cane on it. In Louisiana and parts of that area, I do not know what they will raise unless they will raise sugarcane. In my area, they can raise something else. You bet. They can raise any crop. But they are all crops that are in trouble.

They can raise potatoes. They can raise wheat. They can raise corn. They can raise soybeans, and they got the best land and the best farmers. They are just going to exacerbate an overproduction problem that we have had consistently if they are not raising sugar beets. I am sure the same holds true in Michigan, probably in Colorado. So I am not at all certain that you are doing the domestic consumer or the domestic industry any great service by attacking the Sugar Program.

With that, Mr. Chairman, as I say, I am sorry I missed the testimony. I might have had more questions. I may develop some questions in writing for later, but I will yield back my time. Thank you.

Mr. HUCKABY. The time of the gentleman has expired. The gentleman from Florida.

Mr. LEWIS. Thank you. Mr. Chairman, for the record I want to thank Chairman de la Garza and Mr. Madigan for holding this hearing so that the American agricultural industry can have the opportunity to express their views and concerns toward the 1990 farm bill. But frankly, the sugar industry does play an extremely important part in my Twelfth District in Florida, so therefore I would like to direct some of my questions, if I could, to Mr. Hammer of the Sweetener Users Association.

Mr. Hammer, in a recent statement you made to Reuters News Service on July 3, 1989 regarding the U.S. sugar prices and supplies, you said, "The rising prices in the U.S. sugar market are most likely caused by an import quota that was too low or from lower than expected import shipments." Are you implying that an increase in the U.S. sugar quota by USDA will lower the current price of sugar on the U.S. market?

Mr. HAMMER. You mean at this current time?

Mr. LEWIS. I mean at the time you made the statement.

Mr. HAMMER. Well, last year——

Mr. LEWIS. Well, that is this time.

Mr. HAMMER. At this time, as you may or may not know, the raw price has risen above the MSP. It is currently at 23.3 cents where it may normally have been trading around 22 or even in the 21-cent range. That suggests a tightness or that something is underway. Right now when we looked at that figure, all of the quota sugar has not come in on an annualized basis. We are about halfway through the quota year.

We have had perhaps as much as a third or so of the quota come in. To raise the quota right now I do not think would necessarily increase or decrease the price. But we are experiencing a tightness of price and as I said earlier, and I do not wish to take the committee's time too much, but wholesale refined prices have not been stable.

In California, they are 32 cents right now. They are up 8 cents from 1 year ago. In the Midwest, they are currently 29.08 on average. This is from a June statistic of USDA. Last year they were at 22.92 cents a pound. Something suggests that we are having higher prices.

Mr. LEWIS. Well, Mr. Hammer, do you understand what that something is? You are making the accusations. I think you should be more factual. You were factual in your statement. If I may, you were factual in your statement to Reuters, but now you are walking around it by saying something. Now I want to know what the something is because from the Agricultural Service's Report as of June 4 stated that—only 37 percent of the quota. You mentioned a third has come in. And if you are going to make these statements, then I think they should be accurate and I think that relating to what Mr. Stangeland said, I think that if you are going to be informing the American consumer, you should be accurate in your statements rather than panic them because it is frankly hard for me to stomach when you give inaccurate information.

Mr. HAMMER. I appreciate that, and as we know—I remember that interview. That is not exactly what I said. We had just been——

Mr. LEWIS. That is exactly what you said. We have the quote. Now either you were misquoted or else——

Mr. HAMMER. That is what I am saying. We had just been——

Mr. LEWIS. Well, we are used to that, too.

Mr. HAMMER. We had just been into USDA and said that we are concerned with the amount of quota sugar that we would need to see in this market by the time that the beet crop is harvested. It may not be here when we need it. It was easier to run a quota program when you had a larger amount of quota and a fairly soft world price. Right now we have a relatively smaller quota, whereas 100,000 or 200,000 tons of quota that did not come in on an annualized basis, when you would like to have it, can make a difference in supply and in price.

And we said we do not know what is causing it, but we do not manage the program, and we would ask you to look into it.

Mr. LEWIS. Well, I can appreciate that, and I think we will, but in my investigations with the USDA and discussions with them, there is no implication at all that quotas are going to be changed, either raised or lowered at this point, but you are implying, and you make in your statement both to Mr. Stangeland that there could be a change, and what if we reduce them to 700,000 tons or something like that. Nobody has even suggested that at this point.

Mr. HAMMER. December 15 of this year there will be a quota announcement.

Mr. LEWIS. That is true.

Mr. HAMMER. There are analysts, and I can show you their articles, that have predicted that the quota for the calendar year to come may be set as low as 700,000 to 750,000 based on domestic production, supply, and demand disappearance. That is what I meant to say, and say it in that fact.

Mr. LEWIS. Well I guess we are just going to talk about this one, but I would like to go on a little bit further, if I may, Mr. Chairman. Your organization has repeatedly stated that lowering the current sugar loan rate would save consumers money, and I believe the figure is somewhere around $3 billion, which would save the consumers, something in that neighborhood.

And I believe you used the figure—well, I have heard two figures used—but you did make a statement earlier that if the price of sugar did come down, you could make adjustments in your cost maybe in 3 to 5 years, something like that. You made that just a few minutes ago, I believe. Right now the information that I have indicates that just by reducing the cost of 1 cent to the farmer equals about $60 million more profit, for example, for a Mars candy bar.

Now if it takes you, if we are going to reduce the farmer's profit by 1 cent, and it is going to take you 5 years, we are talking about $300 million of profit right there. Now the fact is that we are talking quite frankly of a minuscule amount of sugar in a candy bar, I take it, 70 percent of it, I guess, is chocolate or something like that.

I asked this question last year and I asked it the year before. I would like to know if I could get an answer as to what the American public could expect if the price of sugar did drop and even got down to where you say you would like to see it? Right now you are talking about 23, 24 cents a pound. It is costing the cane and the beet people about 19.5 cents a pound to produce it. Just what could the American consumer expect from you if the price did go down and when?

Mr. HAMMER. So we are speaking on the same terms, the $3 billion that has been used, and it is not our figure. It has been used by many people. All that is or was—it has probably changed today because the world price is strengthened—is a comparison of what sugar paid for in this country would be versus if it had been bought in the world market. That is all that number is. It is not a terribly sophisticated number, but it does represent the same kind of logic that one might say if I bought a product at store A and paid $2 for it, and I bought it at store B and I paid $1 for it, it is a dollar's difference there. Right now in the sugar in the——

Mr. LEWIS. Mr. Hammer, if I may interrupt you. If I understand the statements that are being made, even if we use this number, we are saying if sugar price was reduced that the consumer would save about $3 billion. It does not make any difference where he bought the candy bar. He is going to save $3 billion. You are telling me using the analogy if you buy it from this store it is going to cost $2. If you buy it from that one, it is going to cost you $1.50. My question is: What is the consumer going to save and is he going to pay 40 cents for the candy bar or is it going to become larger, or is he going to pay 35 cents for it or what?

Mr. HAMMER. First of all, store A and store B is United States versus the world, not a store in here. Yes, the commodity prices will be reflected. They also may be used if a downward price in wheat or vegetable oil or sugar or something may offset wage increases. It is not an easy question. I am not trying to dodge the question. It is not an easy question to answer. Today if we were to fully implement a 6-cent reduction in the price, we would expect, if it would translate exactly into the FOB price that we pay, that would put FOB prices at a level that we were paying 1 year ago and in some places it still would not be as low as what we were paying 1 year ago.

It is those realities of the marketplace that make it very difficult for me to give you an exact answer. But I can tell you that there is a tremendous amount of competition in the food and beverage industry. And that yes, we are not philanthropic. We would love to hold on to that perhaps. But the competition does not allow that. It is the same notion that we saw when we saw a major beverage company in 1981 move for a few cents difference to corn sweetener when the capacity may not have been there, when the technical differences between that and sugar were not as similar as they are today. But it was worth it, and the reason they did it was not because they wanted to become more profitable but because the companies were interested in holding on or expanding their market share or increasing their volume.

The soft drink industry that you indicated has over the last 10 years on a per ounce basis been very cost conscious and are selling their product cheaper today than they were 10 years ago. They try to be cost conscious. They try where they can to bring that into the marketplace because they want to best their competitor. That is the best I can tell you. To give you an honest guarantee or a written promise may not indicate that it may be the time of the year that the decrease in the raw price of sugar or refined sugar to us might be enough to pay the wage increases that we pay on an annual basis. That might defer a future increase in the price of the product.

I have a very lengthy document which I would be more than willing to share with you, come up and visit with you on your staff. We tried to cite some of these facts. We tried to cite literature. All I can say is that it is not a black and white subject. Other costs may go up. The sugar costs today are 20 percent above what they were to us. Maybe it will keep us from having to increase the product because we have just experienced over the last year a massive increase.

Sugar, refined sugar in the store, is 3.6 cents higher today than it was 1 year ago. For those companies, a reduction of 3 to 4 cents might keep them from having to increase the price of sugar sold as sugar to the consumer. That is not an area that we are involved in, but it may delay that kind of an increase.

Again, I am not trying to be evasive. I do have a document that we can insert in the record. It is probably too long that you even want to insert it in the record, but we have tried to speak to this issue and cite examples and literature where we can.

Mr. LEWIS. Well, that is essentially what we have heard the last couple of years, what you said. And I appreciate to an extent that it is rather difficult to say what the actual cost reduction would be. But it is very difficult for this Member of Congress to listen to saying cut this and cut that and we are going to have a better way of life as far as confections and things of that nature without ever being able to say what that really is going to be for the consumer. I feel if you are going to take from the producer which you are after, the sugar producer, and implying that you are going to reduce—I want to say reduce the Sugar Program—eliminate the base price support or what have you, eliminate the quotas or what have you, and open the world sugar market, that you are going to have a better day in court as far as making your candy bars and selling them and the soft drinks and things of that nature.

I really do not think that is going to happen because history has shown that has not happened. Before a Sugar Program, you are talking about 6 cents more, and the housewife was paying as high as 75 cents a pound for sugar in 1975–77, before a Sugar Program. Then the Sugar Program came in. Countries from CBI are doing better today because of the Sugar Program. They are making more money today than they would without the current U.S. Sugar Program.

So I have a difficult time understanding why you continue to come before the Agriculture Committee here and never other than have a document prepared, but always want to say it is very hard and difficult. I could use the same things, and I could say that by cutting the U.S. Sugar Program, we are going to put 300,000—approximately 300,000 jobs—people out of work. We are going to close down a $5 billion industry in the Southeast. We are going to close down a $25 billion industry in the West and Northwest. And that is going to put people out of jobs and things of that nature.

I could say that and shatter the dreams of those people as well and the hopes of those people by saying, just like you are using by the implication that if you cut something, something is going to be better. That does not necessarily mean that is true. I would like to also point out in your statement regarding the use of headnote authority by the administration for imposition of the sugar import quotas, and you mentioned that the GATT panel found that and voted unanimously that the U.S. sugar quotas are in violation of the GATT requirement.

I would also like to make a statement verbatim from Carla Hills, our U.S. Trade Representative, that she stated that this means to me that the GATT decision pertains to the administration views they had no authority, not to the sustainability of the existing Sugar Program. And it appears that might very well turn out to be the truth. And we got time now to work on that to see if that is true.

But I really think that if the price of one commodity to help another commodity and try to either destroy one or reduce it so that 50 percent of that has to go out of business certainly would be, I think, detrimental to the U.S. agricultural system. I could very blatantly ask you if it is so expensive to make a candy bar in the United States why do you not make it elsewhere? I do not think it is that expensive. I think you find that here that you make the best deal in the United States, and that is why you are here.

If not, I do not think you would be here making candy bars or any other confections because that is the way the free enterprise system works. You are supposed to go where the highest profit is available for your stockholders or for the entrepreneur, however we work it. That is the way that I was instructed and taught that that is the way it is supposed to be. I do not think there is anything about loyalty or things like that. I think we just have to look at what is right for the stockholders and for the entrepreneur. And it just bothers me that every time I turn around somebody wants to destroy the sugar industry when it has certainly turned out to be the only profitable industry in this country as far as any loans and only one time in 1985, and that is because you mentioned it yourself when 500,000 tons of sugar were held back, and when the soft drink industry, Pepsi-cola and Coca-Cola went to corn sweetener. Nobody faulted them for that. We would not have had a problem at that time. I would like to see that information that you have, Mr. Hammer, if you would provide it to us.

And true, if it is voluminous, then I certainly do not think it should go in the record, but I would like to discuss it with you even further than this. Thank you, Mr. Chairman.

Mr. STALLINGS [acting chairman]. Mr. Holloway.

Mr. HOLLOWAY. The subject Mr. Lewis is speaking about is very close to my heart. So let me continue a little further. Mr. Hammer, what is the highest price in the last 15 to 20 years, that the sweetener industry has paid for sugar?

Mr. HAMMER. I could not furnish that to you now but I could get it to you.

Mr. HOLLOWAY. Well, if I am not mistaken, and I will speak as close as I can, I believe it was during non-Sugar Program years. I believe it was the time when we skyrocketed the price of our Milky Way bars and everything else, and the best of my knowledge, after it ended, the prices came back down, I never did see the prices of candy bars come back down.

Mr. HAMMER. I think you are right, but I think that the year that it went that high was actually before the first year in the 1981 program, if I recall.

Mr. HOLLOWAY. Well, I think it was well before that, if I remember correctly. I remember my mom was not even able to make jelly and jams it got so high, so high that people could not hardly afford to buy sugar to be honest with you. I really believe you all are fighting something. It is almost something you like. It is almost too steady for your liking to be honest with you. And the point that we have a good program, and it is so dependable that it avoids your price changes the way you want them and that is the reason you fight it. I really believe that it is just a deal that is too good for the consumer at this point, one that we can depend on, one that industry can depend on. That prices do not vary, and you all do not like that to your liking, and the fact that it has to stay too steady without it reflecting on the general public.

Mr. HAMMER. Well, if changes in price were the prerequisite, we should be happy this year because we have experienced a 25-percent increase in wholesale refined sugar.

Mr. HOLLOWAY. And I am sure we will see that reflected in the consumer's market. I do not think that we will ever see it if the price drops next year again, but I am sure we will see that reflected. I have no further questions, Mr. Chairman.

Mr. STALLINGS. Thank you, Mr. Chairman.

Mr. TIPTON. Mr. Chairman, could I possibly make one comment in response to the earlier discussion of sugar prices, Mr. Holloway? That was a period when the world market price was at its peak also, and the U.S. prices, we had had a Sugar Program in effect for a long period of time, and then the Sugar Program was discontinued in the United States, and the world market price went extremely high, and the U.S. prices went right with that. They went as high as the world market price went. The index—if you would look at them—the index of foods, and I represent the ice cream industry, the index of foods and ice cream and other sugar containing products did not go up nearly as much as the price of sugar went up.

And it did not come down as much, but it did not come down as much because it had not gone up as much. I think that the food industry is extremely competitive. I know that is true with respect to the ice cream industry, and it is like asserting that prices do not have any relationship to cost, and I do not think anybody believes that with respect to farmers, and I do not believe they really believe that with respect to food processors or distributors either.

Mr. HOLLOWAY. Let me ask you a question then. With the feeling that we are probably of a little bit more of a shortage of sugar on the world market, without our program what do you think would happen with the world price? I mean, of course, undoubtedly we are speaking from a Caribbean Basin Initiative standpoint. I am sure we are hoping for a higher price, but I think your price might be much higher without a program here?

Mr. TIPTON. I am sorry I did not follow you. You think the U.S. price might be higher without a program?

Mr. HOLLOWAY. I think the whole world price. Do you think that our program at this point with the erratic trend there is in sugar right now, the rumors we hear that it could tend in the next few years, I think our program at that point would even be that much more helpful to us.

Mr. TIPTON. I think that the world market price has been extremely low for a long period of time. That has had a deterrent on production of sugar in many of the supplying countries. The net result of that, and there is always a substantial lag when that occurs, and I think we are going into a period of some reduction in the ability to supply the world market needs. I think whether the United States has a Sugar Program or does not have the Sugar Program, the prices of sugar in the United States will be equal to the world market because nobody in the United States is going to sell sugar to a user at a price less than what that user would have to pay if he bought it off the world market.

That has been the history whenever the prices—the history of the Sugar Program is when the prices in the world market are above the U.S. price, the U.S. users pay that higher price. When it is below the U.S. support price, they cannot pay that lower price because the support price ensures that they cannot get their sugar at a price less than that. And that has been the history of that for a long period of time.

Mr. HOLLOWAY. I think that any sugar farmer that I have ever spoken to was willing to compete on a world fair market. If we have the EEC totally do away with their dumping on the markets, if we have Australia do away with their 35 cent tariffs on sugar, I think our sugar farmers are totally willing to compete. But it is impossible for our farmers to compete, and I state what Mr. Lewis stated, in Louisiana we cannot afford to lose the jobs we have in sugar. We have enough problems without losing our jobs which are very important to us in sugar and we will continue to fight to see the survival of it. Thank you, Mr. Chairman.

Mr. STALLINGS. Perhaps one of the reasons you are not finding a lot of sympathy on this issue, Mr. Hammer, is because in my district in the State of Idaho, we have about 180,000 acres in sugar beets. Now if your proposal were to be enacted, one of the few things that we could guarantee was that there would no longer be a Sugar Program in Idaho. You made a statement earlier that what impacts one particular group has a ripple effect on other groups. That is exactly correct.

And I think that is one of the reasons there are very few commodity groups that are critical of our Sugar Program. In my State, if we were to lose this program, those 180,000 to 190,000 acres would be in something else next year. They would be in potatoes. They would be in beans. They would be in grain, all of which are already in oversupply. As I assess this program, my farmers would lose immediately because they would have to find other crops, and those farmers that grow other crops would be impacted.

Although we hear these numbers, there is no guarantee that the consumer would benefit. We do not know if it would be this year or next year or 2 or 3 years down the road. They may possibly be the beneficiaries. Third World nations that have quotas into this country would not necessarily benefit, because if this market were opened up at a so-called world price, it is your argument that the price would drop. I suspect the Philippines might import a few more tons into this country, but it would be at a much lower price. I guess my problem is that there are no winners except for a few people that use the product in this country, and that they would be able to buy sugar a little cheaper off of the international market.

Therefore, they could produce their product a little cheaper, but whether that price was passed on or not, we are not sure. And so for this committee to consider doing away with the Sugar Program is really very foolish. Our farmers are benefiting, as Mr. Holloway and Mr. Lewis said earlier. Over the last years when they had this terrible disaster in agriculture, sugar has been one of the stable crops. It is the one area that people could produce and see a profit. And so I guess I appreciate your comments. I am interested in the other arguments on this issue.

I need to hear that, but I think that until we can see some evidence where the consumer is going to benefit and where America will be better off, and until the Europeans decide that subsidies are not the way to operate, this member will continue to work very hard to maintain the Sugar Program because very frankly the agricultural economy in my State is at stake.

Mr. HAMMER. I appreciate that. I appreciate your position. I would just like to say that no place in our testimony or to my knowledge at any time that I have been working with this organization have you heard us speak about the elimination of the Sugar Program. What we are suggesting is that since 1981 when the minimum support price was put into effect, and at that time it was stated that it was the minimum level needed to sustain the industry and that there would not be any increases in production, and as you can look at some of the USDA statistics—and admittedly they are not always the best—but they showed costs of production much higher, almost 6 cents higher than they are today.

There is no mechanism in the 1985 bill to make adjustments for cost efficiencies that producers have put into their operation, and they have done a very credible job in your State and in other States at doing that over the 8 years of this program. We can eliminate the Sugar Program in the context of allowing a level playing field. Fine. What we are suggesting is that as the committee deliberates on the 1990 bill and beyond that certain things may have changed, and there may be an opportunity and there may be some things going on with other growers. I have heard from them in States, not your own State, that have found their own sections bid away from them because the beet growers can pay more for land than a corn grower or bean grower or a wheat grower can, not because they are bad growers, but because they have offered their landlords three times the rent that the grain grower was paying.

That suggests that there may be some opportunity to look at those interrelationships. Sure, if you are in beets—and as you well know, if you want to expand your beet acreage in areas like yours, that means if you want 20 acres to be in production continuously, you may need to go out and get as much as 80 or 100 to keep your rotational pattern in order. In Louisiana, I think, in the crop report yesterday, there is 15,000 acres expected to increase. We just want to make sure that that is happening because that is what the program—the program is not overinfluencing those decisions. We think they may be.

Mr. STALLINGS. Thank you. We appreciate——

Mr. HOLLOWAY. Can I respond just 1 second to that?

Mr. STALLINGS. Go ahead, Mr. Holloway.

Mr. HOLLOWAY. Our acreage depends so much in Louisiana due to freezes. So we had a freeze in 1983 that almost knocked our total sugar crop out, and we are still trying to build back up to a point at where we were at so it is a lot of things meet the eye more than just the figures that we are increasing acreage because we are. We could not exist with the acreage that would have been after 1983.

Mr. STALLINGS. Thank you. I appreciate all of your comments. Obviously there was a lot of interest in sugar comments. To the other participants on this panel, we do thank you for your comments as well. The Peanut Program has, in fact, worked and we are looking at that program to be incorporated in other parts of the 1990 farm bill.

We also appreciate the corn folks. So to this panel, thank you for your time and your comments. Your testimonies will be considered as we do the 1990 farm bill. Again, thank you very much.

We will turn to the sixth panel. Our sixth panel includes Mr. John M. Tye, president of the Tye Co. representing the Farm and Industrial Equipment Institute, Lockney, Texas; Mr. Bill Barton, Jr., Bonus Crop Fertilizer representing the Fertilizer Institute in Bay City, Texas; Mr. Jay J. Vroom, executive vice president, National Agricultural Chemicals Association, Washington, DC; Mr. Kendell W. Keith, executive vice president, National Grain and Feed Association, Washington, DC. We welcome you, gentlemen, and we appreciate your willingness to participate and help us as we develop this farm bill. If you would try to stay within the 5 minutes, please, your full testimonies will be included in the record. We will begin with you, Mr. Tye, if you would like.

STATEMENT OF JOHN M. TYE, CHAIRMAN, FARM AND INDUSTRIAL EQUIPMENT INSTITUTE

Mr. TYE. Thank you. Mr. Chairman, members of the committee, I am John Tye, president of the Tye Co., headquartered in Lockney, Texas. Today I appear before you as chairman of the Farm and Industrial Equipment Institute which is the trade association for the farm machinery industry, which is headquartered in Chicago. We FIEI members believe that the Food Security Act of 1985 has served agriculture and the Nation well. By nearly any measure of performance, the present farm situation is markedly improved over the situation 3 or 4 years ago. The farm machinery industry has gone through the same economic crisis that has battered many of America's farmers throughout much of this decade.

Farm machinery sales fell dramatically from 1979 to 1986—by nearly two-thirds in real terms. A number of manufacturing firms, including established industry leaders, fell victim to this economic calamity, and others, while they have survived, have gone through major restructuring and downsizing, some by as much as 90 percent. Still, there are signs that our industry has turned the corner and that further improvement lies ahead. FIEI just yesterday released a revised industry outlook which I am pleased to provide a copy to the committee for its reference.

We believe the recent upturn in farm machinery sales is due, in part, to the fundamental soundness of the farm policy that was adopted in 1985. We therefore urge the committee, as it turns to writing the next farm bill, to remain on the same general policy course. That is to remain on a policy course that is market oriented, export oriented, and fiscally responsible. To the extent changes are required, they should be prompted by the need to ensure the accomplishment of these objectives and not to embark in new directions.

We favor the continued use of loans and deficiency payments. They have had a constructive and stabilizing influence on the farm economy. Thanks in part to the design of existing policy, program costs are also moderating and should continue to do so. Furthermore, these are programs that farmers now know and understand. For these reasons we believe they should remain as the bulwark of the next farm bill.

We encourage debate and consideration of alternatives that provide more flexibility to the producer in selecting crops while still participating in the basic programs. The Conservation Reserve Program has played a constructive role in making it possible to simultaneously reduce excessive stock levels and to engage in long-term conservation of fragile land.

While we see a continuing role for this program, efforts to expand its size or broaden its scope deserve careful scrutiny. But most important, we encourage the committee to begin considering what comes behind the Conservation Reserve Program as the original contracts begin to expire near the end of the very next farm bill. We believe that it is the best interest of American agriculture over the long term to continue to work for the removal of restrictions on international trade and farm products.

However, we expect this to be a very slow and halting process. In the interim, we believe that the EEP should be retained for selective use to combat restrictive trade practices and to provide a continuing incentive to other countries to lower their trade barriers. The vitality and prosperity of agriculture is ultimately dependent on the wise and handsome use of natural resources that are the foundation of the industry.

Threats to this resource base deserve careful and immediate attention, but with the spirit of informed reason. We also encourage the committee to stand strong against the well-meaning but perhaps poorly studied environmental over-regulation. We encourage the committee to support the USDA as the lead agency in representing the Government's role in addressing the environmental issues emerging from society's changing contract with production agriculture.

In an era of agricultural plenty, it is easy to underestimate the importance of investments in basic agricultural research. But the returns to these investments are large and will probably grow even larger in the years ahead. Consumers have benefited enormously from past research investments in the form of high quality diets at a lower cost. Increasingly, U.S. agriculture will have to depend on its technological edge to be competitive in a growing world market. And to the extent protection of the environment requires changes in farming practices, perhaps leading to reduced yields and lower returns, a new set of research demands is likely to emerge.

For all these reasons, we urge the committee to maintain its support of basic agricultural research. To this end and as an example, Mr. Chairman, we would like to have included in the record a just released document from FIEI that suggests priorities for public funded research related to tillage and cultural practices. FIEI members are also concerned with two other areas that will no doubt receive considerable attention. Many well meaning but not fully informed groups are challenging the basic husbandry systems used in the production of meat, milk, and eggs. We believe your committee can be of great assistance in providing reasonable resolutions in this debate.

And last, but not least, we encourage the committee to keep in mind the issues surrounding the economic viability of production agriculture and those creating the socioeconomic problems in rural America; they may well require separate approaches and resolutions. We should not try to fix two distinct problems with any one incomplete solution. Thank you very much for your attention, for the opportunity to testify. We in the farm equipment manufacturing industry look forward to working with your committee in the months ahead.

[The prepared statement of Mr. Tye appears at the conclusion of the hearing.]

Mr. STALLINGS. Thank you, Mr. Tye. Your report will be included in the record as well as your entire testimony.

Our second witness, Mr. Bill Barton, Jr., Bonus Crop Fertilizers. Mr. Barton, if you would like to proceed.

STATEMENT OF BILL BARTON, JR., CHAIRMAN, AGRICULTURAL POLICY COMMITTEE, FERTILIZER INSTITUTE

Mr. BARTON. Thank you, Mr. Chairman. I am Bill Barton. I along with my family are in our sixteenth year of business operating Bonus Crop Fertilizer in Bay City, Texas. My brother and I represent the third generation of the Barton family to be involved in some way in the fertilizer industry. My customers grow rice, soybeans, corn, grain sorghum, and wheat, but rice and soybeans are the major crops.

I appear here today on behalf of the Fertilizer Institute as I serve as chairman of their agricultural policy committee. The centerpiece of the 1990 farm bill legislation should be a strong export promotion and market expansion title. Our goal simply should be to assure the U.S. position as a long-term competitive supplier of farm commodities into world markets.

We only have two options. We either sell commodities or we store them. Both may cost money, but only one makes any sense for the survival of rural America. Unlike 1985 where U.S. agriculture had huge inventories of all commodities, our supply-demand balance is in much better shape. Therefore, the 1990 farm bill should minimize acreage reduction programs as a means of controlling supply.

The only acreage reduction program should be the conservation reserve. It is just common sense to remove from production those lands that add to conservation practices or cannot be farmed without environmental harm. The fertilizer industry supported the CRP in 1985 and we urge Congress to reexamine the land criteria for inclusion in the CRP. We may need to broaden the definition just to achieve the 45 million acre goal set in the 1985 farm bill. The 1990 farm bill should provide farmers more flexibility in their planting decisions. With greater flexibility, farmers can adopt systems best suited for their individual operations.

Farmers can benefit from the conservation and agronomic advantages of crop rotation systems instead of being entrapped in monocrop systems. One of the biggest challenges facing agriculture today is responding to ground water contamination. The fertilizer industry believes through research, increased farmer education, public information and the adoption of agronomic best management practices, many of our Nation's water quality problems can be mitigated. We are supportive of the legislation, H.R. 2258, introduced by Representative Stangeland and others and S. 779 cosponsored by over 30 Senators. This legislation directs USDA to provide more practical guidance, more education, and more technology on agronomic best management.

In my business, if I give my customer sound, scientific, agronomic information, and you could give them flexibility within the Government programs, then they, the farmer, will choose the most efficient, economic system for their farm. They will use the most cost effective source of plant nutrient available be that commercial fertilizers, crop rotation with legumes or animal manures.

The 1990 farm bill should not have programs that are an economic disincentive to farmers for adopting efficient crop production systems. It should, however, avoid having programs that provide incentives or subsidies for one source of nutrient to the detriment of another. Last, Mr. Chairman, in legislative efforts to address ground water, policymaking needs to understand what fertilizer is and is not. To aid in the understanding of the central components of fertilizer, nitrogen, phosphate, and potash, the booklet "Fertilizer Perception & Reality" is attached to my written statement.

It focuses on several misconceptions about fertilizer and responds with straightforward facts about soil and plant nutrients. The challenge of the 1990 farm bill, Mr. Chairman, whether it be changes in commodity programs or addressing ground water problems is that these policies be realistic, effective, and based on proven research. With these goals in mind, the results can only help ensure a truly sustainable American agriculture into the 21st century. Thank you.

[The prepared statement of Mr. Barton appears at the conclusion of the hearing.]

Mr. STALLINGS. Thank you, Mr. Barton.

Mr. Vroom, executive vice president, National Agricultural Chemicals Association. We appreciate your being here and we would like to hear from you at this point.

STATEMENT OF JAY J. VROOM, EXECUTIVE VICE PRESIDENT, NATIONAL AGRICULTURAL CHEMICALS ASSOCIATION

Mr. VROOM. Thank you, Mr. Chairman. NACA appreciates this opportunity to share some highlights of our written testimony. Our obvious interest is twofold in being here to comment on the 1990 farm bill. The first and most obvious is that we are hopeful to dissuade you and other committee members from including onerous ag environmental provisions in the 1990 farm bill that would allow emotional concern to eliminate important ag chemical production tools from farmers' use.

But just as importantly, we see new opportunity for adding innovative technology incentives in the environmental and conservation titles that you may write that can and will benefit our farmer customers. The agricultural chemicals industry is nothing without our farmer customers, and their customers, America's food consumers, and America's export customers.

Our industry recognizes the critical need to address environmental and food safety issues in a scientific and responsible way. Those actions are in our interest and our ultimate consumers' interests, and we understand that many of those environmental issues will be debated in the course of the 1990 farm bill evolution. Science, evolution, and technical revolution have been at the core of U.S. farm productivity and are the essence of the agrichemical business, partners for more than the last 30 years. Our members want to take a flexible, open-minded approach to the implementation of new chemical technologies and the creation of incentives for the development of additional innovations that will provide the answers to current environmental concerns in agriculture related to our products.

A similar willingness to be flexible and open-minded on all aspects of the 1990 farm bill will stand U.S. agriculture in good stead. We do not see it as our role to enter into the debate today on the issue of traditional Farm Program components. The experts in the private sector are the traditional constituents of those programs, the food and commodity groups. We hope that they come together effectively and openly with you and the rest of this committee to try new approaches where appropriate.

We advocate that this committee keep in mind the basic essentials of farm production from which we benefit today, an example of which is the benefit of pre-emergent herbicide technology which have added significantly to the overall technical revolution in crop production. A recent USDA report showed that yield increases from weed control, thanks to modern herbicides, for the U.S. corn crop is equivalent to 47 percent of the U.S. output. These herbicides and many other pesticides commonly yield a 3, 4, and 5 to 1 return on investment to farmers. Yet we recognize at the same time that many of those herbicide compounds are the focus of the debate of ground water issues.

While our industry and farmers need to deal responsibly with those problems, both real and perceived, corn farmers and those of us dependent on the U.S. corn industry and the output of that industry cannot tolerate an overnight capricious decision to take those herbicide technologies out of the bundle of technologies available to corn farmers. We must redouble our stewardship efforts in the use of current herbicide compounds to protect the environment while providing incentives for the development of newer and safer compounds for use by our farmer customers.

Federal action supporting education, application technology, and good general stewardship should come first from this committee and the Federal Government along with an investigation of the true magnitude of ground water problems. It would be very easy for all of us in agriculture to see the 1990 farm bill come forward with environmental titles that might overreact to perceptions. We need more facts about ground water in the presence of manmade compounds. A perfect example of this is the Big Springs Watershed monitoring study from Iowa. Early reports on this study were the basis of enormous hand-wringing by environmentalists when data collected and reported in the years 1982 through 1985 showed an increasing trend of detection levels of certain agricultural chemicals in ground water.

However, when the last 3 years of data were unveiled, the trend was shown to reverse in Big Springs. And the preliminary hue and cry was muffled. These data have recently been reviewed by Iowa State University and shown to be supportive of responsible agrichemical use. We appreciate the opportunity to share these views and would look forward to responding to your questions.

[The prepared statement of the National Agricultural Chemical Association appears at the conclusion of the hearing.]

Mr. STALLINGS. Thank you, Mr. Vroom.

Mr. Keith, please proceed.

STATEMENT OF KENDELL W. KEITH, EXECUTIVE VICE PRESIDENT, NATIONAL GRAIN AND FEED ASSOCIATION

Mr. KEITH. Thank you, Mr. Chairman. The National Grain and Feed Association is a voluntary association of more than 13,000 companies involved in the grain and feed complex. And we market more than two-thirds of the grain produced by American farmers. A large majority of our members are country elevators that work directly with farmers in storing and marketing grain.

From our perspective, the principles set forth in the 1985 farm bill should serve as a guidepost for future farm policy considerations. But while the Food Security Act of 1985 was a substantial policy improvement for which Congress is to be commended, it can be improved. Two of the most serious shortcomings that we see are the reliance upon acreage retirement as a primary method of controlling Federal program outlays, which leads to artificial shortages of some commodities, and disincentives to a producer to base cropping decisions on market prices or to make prudent land management decisions.

We believe remedies to the set-aside and production flexibility issues should be paramount on Congress' list of objectives for the 1990 bill. Concerning loan rates, after much debate on loan rates in 1985, Congress passed the new farm bill that mandated lower loan levels to ensure that they remained consistently below market clearing levels. With this action, the U.S. removed the price protection it had given our competitors for several years.

Consequently, world grain exporting nations took notice and began to confront new risks in bringing new land into production. The impact of our loan rate adjustment has been a decline in the total world harvested acreage and expanded demand. Because of its demonstrated success, we strongly support the continuation of current U.S. policy on loan rates. We think it would be extremely shortsighted to permit any fine-tuning with loan rates for purposes of budget savings.

Concerning acreage reduction programs. When drafting the 1985 act, Congress and the administration made U.S. agriculture an aggressive player in the international marketplace for wheat and feedgrains. Actually this policy choice in 1985 was a relatively easy one for Congress to make. Government-owned grain stocks provided plenty of ammunition making U.S. farm products instantly competitive. However, today we are in a different setting and stocks are low.

Consequently we believe it is time for Congress and the administration to recognize and to act to avert the pitfalls of acreage reduction programs. It is time to recognize the acreage reduction decisions by affecting U.S. grain supplies are a major determinant in whether U.S. agriculture is market oriented. It doesn't matter what level loan rates are set at. If we short the market through ARP's, we will just be as uncompetitive as if we had high loan rates. We see several problems with acreage reduction programs.

First, they reduce the efficiency of the agricultural sector. According to the Agricultural Policy Working Group, a 20 percent set-aside program can add as much as 33 cents per bushel to the production costs of a typical Iowa corn farmer. Acreage reduction programs work heavily against us as we strive to be the most efficient, competitive Nation in agricultural commodity production. Acreage reduction programs also encourage foreign production. Acreage reduction programs limit market growth and promote development of substitute products.

It can be argued that acreage reduction programs have been used recently more as a budget control measure than as a supply management tool. We believe that the use of acreage reduction programs for budget purposes is poor public policy. If budgets continue to be a problem, perhaps Congress should begin to focus more on limiting ASCS payments than raising production costs for agriculture through high set-asides.

The impact on net farm income could be neutral with a higher volume of production that would benefit all of agriculture. In addition, we would recommend that Congress consider at least a short-term suspension on entering land into the long-term Conservation Reserve Program. Considering the many uncertainties concerning supplies of stocks, especially wheat, we think Congress should consider slowing enrollment into the CRP.

Finally, concerning producer planting flexibility, from our standpoint planting flexibility is the central element of a true market orientation, allowing farmers to plant the crops demanded by the marketplace rather than in response to the dictates of Federal farm programs. Since 1979, the United States has lost about 12.5 million acres of soybean production. In addition to the loss of market competitiveness, a current lack of flexibility in farm programs has affected very negatively the ability of a producer to exercise sound soil management and environmental practices.

Our country elevator members report that farmers complain often about their lack of planting freedom under current legislation. These current rigid programs make little sense economically or environmentally. There are several options for addressing the flexibility issues now being reviewed. We think these options must be seriously considered. Too much of the future of U.S. agriculture depends upon the ability of producers to make planting decisions that can meet market demand. That concludes my testimony, Mr. Chairman.

[The prepared statement of Mr. Keith appears at the conclusion of the hearing.]

Mr. STALLINGS. Thank you, Mr. Keith.

Let me just follow up on something you said. You were talking about acreage limitations. What did your organization feel about the Conservation Reserve Program? Did you see it as a cost saving measure, an acreage reduction measure or as a good soil conservation policy?

Mr. KEITH. In the 1985 farm bill debate we supported the Conservation Reserve Program because we thought that a long-term program encourages conservation and sound management practices on land and conserving of resources made a lot of sense. Since that time, we have seen the program strain to define land that should be included, and there are indications now that they may have to redefine what is fragile land to get enough acres into the conservation reserve.

And we do not think that that is necessarily good policy. If land is truly fragile, it belongs in the conservation reserve. We certainly support that, but land that should be in the production of crops that is competitive and does not confront severe erosion problems, we think should be committed to production.

Mr. Stallings. So your group would have no problem with maintaining or even expanding CRP in the 1990 farm bill if the qualifications you suggested were met? If the land is highly erodible and fragile, and that the definition of marginal land will not be expanded to include other lands?

Mr. Keith. Well, we think that some lands can be farmed intermittently and for a few years and then put into conserving uses such as alfalfa or other conserving basis and then put back into row crops, and there is some flexibility there, and still maintain a minimal soil erosion. And so, no, I cannot say that we would support any kind of an expansion of the CRP in the 1990 farm bill.

We think that we need a lot of the acres that are out there today in bases and in set-asides to meet the demand of the marketplace. And we see potential for expansion of production in the United States, in the worldwide in the next 4 or 5 years, and we want to be positioned. We think the United States should be positioned to capitalize on the expanding demand, and if we have too many acres enrolled in the CRP, acres that could be used in row crop production without loss to the soil, then we think that is where they should be.

Mr. Stallings. Grain stocks have dropped rather dramatically in the last couple of years. In my view, it is primarily because of the drought more than the other programs that we have implemented through the farm bill and through the set-asides. Does it concern you that given a return to normal moisture we might see overproduction again, and then a return to the huge surpluses that we had 2 or 3 years ago?

Mr. Keith. Well, I think from experience we have found that we cannot manage our stocks on as fine a line as we maybe thought we could a few years ago. We got into this situation with wheat this current year. Of course, as you are well aware, our exports of wheat are projected to drop 15 to 20 percent in the next marketing year, and most of the reason for this is we do not have wheat to sell. And we had a 27.5 percent set-aside in the Wheat Program. Now, yes, we were dramatically affected by the drought. We lost a big part of the Hard Red Winter wheat crop, but we think the set-aside had a lot to do with that.

And we saw a set-aside program driven not by just supply management considerations but by budget considerations and that bothers us greatly. We think that is poor public policy.

Mr. Stallings. Let me turn to Mr. Vroom and Mr. Barton. Mr. Vroom, in your testimony you talked about onerous environmental controls. This last year we went through a couple of scares with the use of chemicals on apples and Aldicarb on potatoes. What are our alternatives? If we do not address the use of chemicals through the farm bill, my concern is that we are going to be subject to the whims of various groups that release press statements that may or may not be correct. These releases create a public hysteria regarding a chemical that has some impact on you and a lot of impact on the agricultural community that produced that commodity, when in reality there may be nothing wrong with that chemical at all. What is your organization's feelings about how we ought to proceed and whose responsibility it is to deal with these issues of chemicals and health?

Mr. VROOM. Well, you just described our most serious concerns over the last 6 or 7 months. And in fact, it is of concern to our industry that we have focused so much attention on the food quality and pesticide residue issue that we have not continued to keep good focus and policy advancement in the ground water area that is also critical and we think probably will be more directly addressed in the 1990 farm bill than the food quality issues which probably will have legislative focus and movement earlier than ground water considerations.

How do I respond, though, to the direct question on food quality? We do think there are needed remedies from the Congress of immediate focus. One is the need to correct the Delaney paradox and to put that legislative problem behind the country and behind agriculture and to move on to a legislative determination and recognition of the concept of negligible risk with regard to pesticide residues in food. Beyond that, there are numerous concepts and issues that need to be addressed surrounding the food-quality debate. Many of those provisions will be addressed in the Food and Drug Act side of the issue. Certainly there are FIFRA components that will be addressed, and we think that there is a lot of responsible attention being focused by staff and Members on the Hill right now.

At the same time the administration is spending a great deal of time looking into those issues. It is not a simple issue to remedy, and finally, I believe that our industry has a front and center responsibility to do a better job of communicating the technologies that are being used by our farmer customers, what the risk assessment process is all about that allows us to use crop protection chemicals on food crops in a responsible way to achieve a negligible risk standard or less with regard to pesticide residues in our food.

But we have a big responsibility as the industry that manufactures these compounds to do a better job of educating our farmer customers and reassuring them, and helping them redouble their stewardship efforts in terms of the use and application of our products so that mistakes aren't made with those products that result in food quality problems and then to educate the consumer about the true facts that exist.

Mr. STALLINGS. Obviously not only on the products, the apples and potatoes, but also on the ground water that you referred to. As we test ground water we find phosphates. We find nitrates from our fertilizer industry as well as some of our chemicals. Mr. Barton, can you give us some direction on how we address that problem?

Mr. BARTON. Well, when we get to fertilizers, fertilizer per se is not the problem. It is the things that we are finding in the water, in the ground water, nitrates which occur in nature. A nitrate from fertilizer, from commercial fertilizer, is no different than a nitrate produced by soybean legume or any other legume. Or by the nitrate that occurs in ground water due to manures. So I think we have to make that distinction that these are naturally occurring things that are used as plant foods.

Our industry has taken a very strong and open stance toward best management practices, or BMP's as we call them for short, to initiate and actually disseminate a lot of information that is currently available to the farm community through the use of USDA land-grant universities, extension services. There are some members of your committee that are talking about this educational process to get the information to the farmer how to best manage his inputs be them fertilizers, pesticides or whatever.

We feel that by granting the farmer more flexibility in his cropping decisions, that he can and will because he does not want to spend a nickel more than he has to pick the most efficient and effective way to produce his crop be it, as I said earlier, commercial fertilizer or legumes or manures. The distinction has to be made, though, that these are naturally occurring substances in the soils everywhere. Phosphates are mined. Potassium is mined. Nitrogen, the air you breathe is full of nitrogen. They are naturally occurring and it is very hard to, once they get into the ground water, determine the source. And these are where we need the stewardship so that we as an industry know that we are putting forth our best management practices not to add to a problem.

Mr. STALLINGS. I appreciate that The whole educational process is a very difficult issue to deal with because we have to educate different elements within the community. Obviously, the farmer needs to know how best to apply that, but the consumer also has to be aware of some of these problems you are dealing with.

Someone releases a statement that we are finding "*x*" levels of phosphates in the ground water, and immediately there is horror and shock because apparently it is coming from farmers who are using too much of that chemical or those elements on their crops. And yet in fact, as you stated, it could be coming from other sources. Do we have the time? Do we have the resources to do that kind of education nationally or do we just sort of have to play catch-up every time someone releases a story, deal with that one, and hope that the next hit does not take place for some time?

Mr. BARTON. Well, we are not in the business of sensationalism. So we tend not to blow our horn, so to speak. One of the things that we attached to the written testimony is this "Perceptions and Reality" piece which addresses some of those issues you just brought up, the perception and the reality. This is a brand new piece that the Fertilizer Institute put together. I think the ink may not even be dry on it.

But these types of things along with developing best management practices in a written form. We have had these things available to us through research, land-grant universities, the extension service. They have never been brought together in any concise form. The Phosphate and Potash Institute which is more or less the research institute funded by the fertilizer industry has started developing specific plans for specific crops. So we are working as fast as we can run toward this, but I am not sure. When my farmer customer comes in and starts talking to me about a fertilizer application, the first question I ask him is: Do you have a soil test?

Did you pull a soil sample? We pay for that. We will pay for it for them. It is very hard for me to get over 10 percent of our customers to take a soil sample. So it gets back to farmer education. It is almost like walking into a druggist and saying I want a pill. Well, what do you want? You need a starting point. So if he does not have that, then we go on extension service recommendations. We do not in my business and all our people are very strictly told, "You do not go out and make shoot from the hip recommendations." You base them on Texas A&M in our instance or Texas Tech. You base them on sound agronomic policies.

Mr. STALLINGS. I appreciate that. Gentlemen, thank you for your testimonies. They will be included in the record. I hope, Mr. Barton, that the educational sheet you have talked about gets out, gets wide reading, and that it is made available to an awfully lot of sources through extension, through the universities and through the general consumer groups. My fear is that in the future, these national scares, whether they are about chemicals or fertilizers, could do more damage to our farmers than some kind of natural disaster.

If you frighten the public at a key time, as we did with apples, you essentially destroy the crop for that year. I think that we have a tremendous responsibility, both from this committee and from the producers, to educate our people, and to let folks know that we are in the business of producing good, wholesome products and that we are not just in this to make profits. I appreciate your testimony. I thank you for being with us today.

[Whereupon, at 4:55 p.m., the committee was adjourned, subject to the call of the Chair.]

[Material submitted for inclusion in the record follows:]

NAEGA
North American Export Grain
Association Incorporated

Testimony of
Steve McCoy, President
NORTH AMERICAN EXPORT GRAIN ASSOCIATION
before the
COMMITTEE ON AGRICULTURE, U.S. HOUSE OF REPRESENTATIVES
July 13, 1989
Washington, D.C.

It is a great privilege to appear before you today as a representative of the U.S. export grain community in these the first hearings of the Committee on matters pertaining to the 1990 Farm Bill.

The subject we wish to address today is U.S. agricultural exports. It is important that the matter receives the Committee's priority attention.

No single issue will have as great an impact on the future of U.S. agriculture -- and the success of the 1990 legislation -- as U.S. agricultural export performance. It has been so for U.S. agriculture since the early 1970's. It remains so today. 1990 legislation which fails to recognize this reality -- and to effectively mobilize U.S. government resources and programs in support of expanded exports -- will necessarily fall short of the objectives which you, the Committee, may set for the future of U.S. agriculture, however those objectives may be drawn.

THE PRIMACY OF EXPORTS

The link between U.S. agricultural exports and the health of the Nation's farm economy -- indeed, of the national economy itself -- is well documented and well known. I will not dwell on the matter at length.

Detailed documentary evidence of the link was provided in the 1987 report of the National Commission on Agricultural Trade and Export Policy, a Presidential panel which labored under your leadership, Mr. Chairman, and under the leadership of Mr. Madigan; and which I was honored to serve as Associate Director.

Many of the Commission's recommendations have been enacted into law in the 1985 Farm Act and 1987 Omnibus Trade Act. Others remain to be considered.

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It would be well for the Committee to consider utilizing the Commission's report as a starting point for its deliberations on the export provisions of the 1990 bill. I would, of course, be happy to assist that process from the former staff perspective. Some of the Commission's recommendations may have been overtaken by events; and others may appear less than merited in the current context. However, as a body of findings, the report may have some utility to the Committee.

Alternatively, Mr. Chairman, you might consider convening a meeting of the former Commission members to elicit their cross-sectoral views of the export policy needed in the 1990 Act; and to further explore the Commission's 1987 recommendations.

LEADERSHIP NEEDED

Leadership was an important theme of the Commissions's report. It remains, in our view, the most important theme relating to the matters under consideration by the Committee today. Leadership is needed to knit together the various aspects of today's farm and trade policies into a coherent, connected and consistent whole.

The 1985 Act came close to achieving that objective. However, even that seminal legislation has been unable to stem the tide of policy conflict and inconsistency which relates to the effect of various commodity provisions of current law.

Today's problems of rigidity of commodity programs; of unevenness of program benefits as between, say, corn and soybeans; of lack of market-orientation affecting producer decisions; of inadequate production of commodities in demand in the market and surplus production of commodities not in demand; of starkly different domestic and trade strategies affecting different commodities: all these problems pose a serious and continuing threat to the maintenance of U.S. trade competitiveness; a consistent environment promoting overseas market development; and the future performance of U.S. exports in the markets of the world.

We recognize that policy consistency is always a difficult undertaking, particularly when one bears in mind the comprehensive nature of multi-year farm legislation. We further recognize the important contribution of the 1985 Act in the direction of a consistent, pro-export policy.

We commend the Committee for its attention to problems of current policy -- particularly program rigidity -- and its obvious intent to address such issues in the 1990 bill. That is good news. It demonstrates the Committee's appreciation of its leadership role in crafting consistent policy. That leadership will be necessary if we are to avoid sinking into a policy morass dictated by the differing objectives of specific commodity interests.

A common policy and common objective is needed now more than ever in U.S. agriculture: a bundle of inconsistent, conflicted commodity provisions -- whether contained under a single statute or not -- is not a substitute for a consistent, unified policy approach.

A commodity lobbyist, noting the influence of his commodity's program on the production of another commodity, recently commented, in effect, "that's their problem, not ours". Leadership is needed, Mr. Chairman, to put such thinking aside.

The unintended, adverse impact of current commodity programs -- of one commodity's program on the competitiveness of another -- is not a problem for a single group or interest: it is everyone's problem. Leadership is needed to see that this theme is reflected in the 1990 bill. That will not be an easy task. However, agriculture stands assured that at your hand fair and reasonable treatment of commodity interests can result in overall benefit for U.S. agriculture as a whole.

DOMESTIC POLICIES SET THE PARAMETERS OF EXPORT GROWTH

We dwell at some length in this testimony on domestic policy ramifications of the 1990 legislation for a purpose that bears directly and unavoidably on the specific matters under consideration by the Committee today. Domestic policies set the framework for and parameters of future U.S. export growth.

This is, of course, a matter which the Committee knows only too well. It was your recognition of this important relationship which led to a restoration of U.S. competitiveness through the medium of commodity provisions of the 1985 Act.

The direction of domestic policy contained in the 1985 Act must be maintained if U.S. agriculture is to prosper in the competitive environment it is likely to face in the future. The 1985 Act put U.S. agriculture on a path to greater market-orientation and competitiveness. That trend should be allowed to continue -- and that path widened and made more permanent -- in service of farmers, consumers and others directly and indirectly affected by the performance of the U.S. food and farm system.

Loan rates should be maintained at below market clearing levels; and efforts to increase loan rates strongly opposed. Acreage adjustment strategies should be reconsidered in light of current supply conditions and with full appreciation given to the need to maintain maximum U.S. farm production as the best possible -- and most effective -- response to unfair foreign competition.

Reserve policies should be made more flexible. Release levels for the Farmer Owned Reserve (FOR) should be eliminated and farmers given opportunity to market reserve grain at their option.

Finally, farmers should have greater freedom to make their own planting decisions and to rely on market signals to enhance their competitive position in meeting world and domestic demand. Farm programs should be restructured to break the link between program costs and production.

Government benefits to farmers should be limited to direct assistance unrelated to current or future farm production. This step could be accomplished by ending the link between deficiency payments and current production; and by the substitution in lieu thereof of a direct payment based on historic planting patterns. Farmers should have the assurance that they will receive a known, predictable payment regardless of what they plant or whether they plant at all. That is fair and right, and if accomplished in the manner we have suggested, is in the best interests of all engaged in U.S. agriculture.

A CONSISTENT CLIMATE PROMOTING REAL WORLD ECONOMIC GROWTH

The steps recommended above will go some way towards assuring the continuation of a competitive U.S. agriculture. However, competitiveness can only be guaranteed in the long run through adherence to more general policy promoting real world demand growth.

The 1990 legislation must provide a consistent basis for long-term market development. Foreign customers of U.S. agricultural products need to be assured that the United States will produce in response to market needs. U.S. agricultural policy must be devised in light of the need to preserve the reliability of the United States as a dependable supplier to domestic and world markets. Foreign policy inroads into U.S. agricultural policy which run counter to this principle must be eliminated.

Government policies that have effectively created an environment of managed demand and supply should be ended. Congress should recognize that government can -- and often does -- act as an anti-competitive element in the domestic and world agricultural marketplace. Government involvement in agriculture and trade should be kept to a minimum. In the alternative, U.S. farm and trade policies should be designed to achieve maximum "market orientation".

International trade barriers and unfair competitive practices should be reduced or, preferably, eliminated. U.S. export subsidies, if maintained, should be limited in scope and targeted to offset unfair subsidies applied to exports of other countries.

Due care should be taken to ensure that U.S. subsidies enhance rather than interfere in normal marketing practices.

U.S. market development and food aid programs should be reconsidered in light of the new realities of international agricultural trade. Agricultural trade promotion activities of the U.S. government -- and similar activities by overseas market development organizations -- should be strongly supported and maintained. Steps should be taken to ensure that such activities and programs represent the interests of all affected groups engaged in the export of U.S. agricultural commodities and products. Greater emphasis should be placed by government on mining the talent and expertise of the for-profit private sector in support of such activities.

SPECIFIC RECOMMENDATIONS

Regarding specific components of the export title of the 1990 bill, we currently recommend provisions as follows.

Agricultural Trade Policy

The 1990 legislation should clearly affirm Congress' support for the Administration's position seeking reduction in, or elimination of, unfair trade practices in the GATT negotiating process. The stated policy of the United States should be to disavow use of trade- and production-distorting subsidies and practices prejudicial to expanded world trade. Worldwide export subsidies and import barriers should be reduced or eliminated.

Current U.S. export subsidies should be, by legislation, limited in scope only to counter unfair export practices of other countries. The 1990 bill should clarify that current export subsidies of the United States are temporary, and for strategic use to achieve trade policy objectives. Otherwise, the legislation should specifically rule out reliance on export subsidies as a governing principle of U.S. farm and trade policy.

Inter-Agency Considerations

Existing provisions of law relating to agricultural export embargoes and contract sanctity should be restated and, where necessary, strengthened to ensure clear-cut U.S. policy disavowing use of agricultural export embargoes except in extraordinary cases involving actual military conflict. The Committee should take under advisement embargo legislation offered in 1988 by Congressmen Anthony and Bereuter as a model for provisions needed in the 1990 bill.

Principal leadership in agricultural trade policy matters should be reserved for the U.S. Department of Agriculture (USDA), strengthening USDA's hand in the inter-agency process in competition with other agencies. Identification of USDA agricultural trade policy leadership was incompletely addressed in the 1988 Omnibus Trade Act. The 1990 farm bill can improve on provisions of current law. The 1990 legislation should contain explicit language limiting foreign policy inroads into the establishment and execution of U.S. agricultural trade policy. Consideration should also be given to the development of "agricultural trade impact statments" as a means of policing the impact of non-agricultural factors on actual U.S. agricultural export performance.

The role and responsibilities of the Special Assistant to the President for Agricultural Trade and Food Aid should be reconsidered in the context of the 1990 legislation. Consideration should be given to combining the Special Assistant's role with the Agricultural Trade and Development Missions (ATDM) program authorized by the 1988 Trade Act, as a means to make both activities more effective.

Export Enhancement Program

Pending changes in the export enhancement program (EEP) arising from the current inter-agency review, legislation should be considered to add greater stability and transparency to the EEP program.

The program currently operates in a manner prejudicial to U.S. farmers and grain exporters. Specific changes recommended by NAEGA include provisions requiring that the program allow:

(1) negotiation directly between buyer and seller, eliminating the government role in determining price, shipment period, coast of shipment, class and grade of grain, and other conditions of sale;

(2) contracting for any class or classes of grain for shipment from any coast or coasts;

(3) switching of classes and grades of grain and coasts of shipment at any time prior to shipment by agreement of contract parties;

(4) a single bonus to apply to all classes of wheat (other than durum) with an "additive bonus" if necessary to counter particularly aggressive foreign subsidization;

(5) public announcement of a list of EEP eligible countries or an annual "EEP marketing plan" designed to add transparency to the program; and

(6) elimination of certain "nuisance" and anti-competitive provisions of current regulations.

More detailed information regarding these matters is contained in the pages attached to this testimony. NAEGA welcomes your review and comments regarding the recommendations made.

Export Credits and Credit Guarantees

Export credit programs of the USDA should be supported and funded at the maximum level possible, consistent with the need for such programs in an increasingly competitive international environment.

Consideration should be given to management improvements in credit programs to eliminate "red tape" and provide for their expanded use. Changes in the GSM Short Term and Intermediate Credit Programs are required to make the programs more attractive to exporters and foreign customers alike.

Market Development Programs

Review of the Targeted Export Assistance (TEA) program would be merited in advance of the 1990 legislation to ensure that the program is cost-effectively serving priority U.S. market development objectives. Provisions are needed in the 1990 bill to provide a basis for greater direct for-profit private sector participation in market development activities directly and indirectly supported by the U.S. government.

U.S. direct and indirect funding of foreign market development activities and projects should be provided only upon condition that the activities and projects supported are beneficial to all affected segments of the farm and export community. Activities or projects which run counter to the goal of promoting the best possible image of the U.S. agricultural industry should not be supported directly or indirectly by the U.S. government.

Current market development programs of the Foreign Agricultural Service (FAS) should be re-examined to determine their consistency with the future needs of U.S. agriculture. Market development objectives should be more clearly defined, perhaps as part of the Annual Long Term Trade Strategy reports required by the 1988 Trade Act.

Food Aid and Foreign Assistance

P.L. 480 Title I/III programs should be reconfigured consistent with the recommendations of the Ad Hoc Private Sector Committee on Agricultural Trade and Foreign Assistance, of which NAEGA is part. In general, food aid programs should be required to serve more direct U.S. agricultural market development purposes.

Committee development of the food aid provisions of the 1990 bill should take greater account of farmer and for-profit private sector agricultural interests in such programs. I take this opportunity to volunteer to the Committee copies of the Ad Hoc Committee report, as a first step toward your more complete consideration of these issues.

Cargo Preference

Cargo preference provisions of the 1985 Act are recommended for repeal. Such provisions have evidently failed to serve their intended purpose in assisting the transition of the U.S. bulk maritime fleet towards greater cost efficiency.

The cargo preference provisions of the 1985 Act remain a serious exaction on U.S. agriculture, despite the brave face put on them by some within the agricultural community. Assistance to the maritime industry -- if deemed necessary by Congress -- should be provided in some other manner than by reservation of cargoes in violation of accepted principles of competitiveness and marketing efficiency.

FAS Management and Organization

The 1990 legislation should reaffirm and support policy strengthening the Foreign Agricultural Service (FAS) contained in the 1988 Trade Act.

The 1988 Act called for increased staffing and funding authorization for the agency; and for the establishment of new FAS offices and reporting requirements. Oversight of these provisions should be undertaken to ensure that the requirements of the 1988 law have been appropriately executed by USDA. The Committee should also explore the status of the private sector Committee required to be established by the 1988 Act for purposes of reviewing the organization of current international programs and activities of the USDA.

Consideration should be given to a provision of the 1990 bill requiring FAS to hire personnel from among individuals possessing a broader range of background and education than that currently true for the agency as a whole. FAS could benefit by new personnel more directly experienced in business and trade. Leadership positions within the agency should not, as a matter of course, be reserved for foreign service officers only.

CONCLUDING COMMENTS

The recommendations contained above are necessarily provisional and general, given the early stage of debate of issues pertaining to the 1990 legislation. We hope to work with you to narrow their scope and purpose so that they may be suitable to be included in the bill before the Committee next year.

Obviously, other matters will emerge which may also bear on the important work to be conducted by the Committee in 1990. In addition to strictly trade or agricultural concerns, matters which affect U.S. export performance include U.S. economic policy, the budget deficit, LDC debt, and the overall worldwide economic climate. These matters, in turn -- and their relationship to agriculture and agricultural trade -- deserve the constant attention of the Committee, though not, perhaps, as part of today's hearing.

Over-compartmentalization of export from commodity provisions of the 1990 legislation should be assiduously avoided. The commodity and export titles of the 1990 bill are, in reality, two sides of the same coin. They should not be conceived as separate from or unrelated to each other.

We have attempted in this testimony to note the important link which exists between U.S. domestic farm programs and trade. We have also noted the linkage of U.S. agricultural trade policy with other considerations, such as foreign policy, multilateral trade policy and maritime policy. Keeping consistency between all these various aspects of U.S. agricultural production and trade is the greatest single challenge that lies before this Committee. The need for consistency is made all the more real by the backdrop of negotiation of a new multilateral trading agreement.

More than in any previous time in recent history, the opportunity exists next year to fashion a single, integrated, coherent farm and trade policy for the United States that may serve U.S. agriculture into the next century. Ground breaking work in the direction of a market-oriented, competitive U.S. agriculture was signalled by the 1985 Farm Act. Building on the strengths of that bill -- and improving it where necessary -- this Committee can have a dramatic impact on the domestic and international environment in which U.S. agriculture must operate.

We have suggested our preferred route for achieving U.S. agricultural competitiveness. We now look to your suggestions and actions. The U.S. export grain community stands ready to assist you in any way we can to make your burden next year less onerous. We thank you for this opportunity to testify and look forward to future dialogue in support of a strong, profitable and market-oriented U.S. agriculture.

The North American Export Grain Association (NAEGA) is a not-for-profit organization representing the interests of U.S. grain and oilseeds exporting companies and cooperatives.

NAEGA
North American Export Grain
Association Incorporated

THE EXPORT ENHANCEMENT PROGRAM (EEP): A PROPOSAL FOR CHANGE

Recommendations of the North American Export Grain Association

May 1989

Introduction

In testimony presented before the House Subcommittee on Wheat, Soybeans, and Feed Grains on April 27, 1989 (see attached), the North American Export Grain Association (NAEGA) has recommended "redesign" of the current export enhancement program (EEP) to "lessen the adverse impact of government in the grain marketing process".

The EEP currently "acts as a deterrent rather than as a stimulant to export sales", the testimony states: "foreign grain customers look to the U.S. government rather than to the marketplace to make basic decisions regarding purchases". The testimony notes that "a greater element of stability, consistency and predictability is necessary in the EEP program, if it is not place an unreasonable burden on grain markets". It also notes that "greater transparency in the decision-making process would result in improvement in the program".

The following information is provided as additional to the views expressed in NAEGA's April 27 testimony. The North American Export Grain Association (NAEGA) represents the interests of U.S. grain and oilseeds exporting companies and cooperatives.

The Current System

Currently, USDA -- either internally, or, more often in negotiation directly with a foreign buyer (usually a government) -- determines the terms of sale of commodities sold under the export enhancement program (EEP) down to specifics including shipment period; coast of shipment; class and grade of grain; and, in many cases, price. Once these initial determinations are made, the buyer invites exporters to bid for the business.

USDA calculates the bonus it believes is needed to buy-down the price of the commodity to the price offered by the EC for the commodity in the market in question. An exporter or exporters offering to sell within the bonus range may be granted a bonus and thereby the business.

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However, the process is not automatic. Prices and acceptable bonus levels vary from day to day; and from period to period. USDA, by exercising total discretion with respect to such sales, may reject or accept on any given day business offered at terms better or worse than those offered on the previous day or day following.

There is an absence of consistency and predictability in the program.

The Current Problems

The negotiation of contract terms and the setting of bonus levels by USDA takes away from the exporter the ability to rearrange domestic positions to benefit from the most efficient and advantageous terms; and prevents competitively placed producers from participating in the sale to the extent that they would under free market conditions.

By tightly limiting the shipment, the present system prevents the buyer from making any substantial forward purchases. EEP initiatives are offered piecemeal. A buyer who may be disposed to buying substantial quantities of grains in predictable conditions is precluded from that option because he cannot predict when the next initiative will take place. The lack of consistency and predictability in the program creates frustration for both buyer and exporter, results in charges of buyer "discrimination" and, in the long term, will tend to drive our best volume customers to more predictable origins.

Indeed, this may already have happened. Producer, buyer and exporter all fail to benefit from the program as Congress intended. Significant sales and, hence, purchases from producers go unmade.

A Partial Solution

There is no perfect "market-oriented" solution to problems of this nature created by a targeted export subsidy program which, by its very nature, impedes the normal function of markets. Nevertheless, certain improvements in the current system could be made which would restore to a greater extent the operation of the free market to the benefit of the program and affected parties, including exporters and producers.

NAEGA has reviewed some possible solutions. Among these, we recommend the following:

(1) **NEGOTIATIONS SHOULD BE DONE DIRECTLY BETWEEN BUYER AND SELLER, ELIMINATING THE GOVERNMENT ROLE IN DETERMINING PRICE, SHIPMENT PERIOD, COAST OF SHIPMENT, CLASS, AND GRADE OF GRAIN, AND OTHER CONDITIONS OF SALE.**

(2) THESE NEGOTIATIONS SHOULD PERMIT THE CONTRACTING FOR: (a) ANY CLASS OR CLASSES OF GRAIN; AND (b) SHIPMENT FROM ANY COAST OR COASTS.

(3) CLASSES AND GRADES OF GRAIN AND COASTS OF SHIPMENT SHOULD, AS IN THE FREE MARKET, BE SWITCHABLE AT ANY TIME PRIOR TO SHIPMENT BY PRIOR AGREEMENT OF BUYER AND SELLER.

(4) THE SAME BONUS SHOULD APPLY TO ALL CLASSES OF WHEAT (OTHER THAN DURUM) FROM SHIPMENT FROM ALL COASTS.

IF NECESSARY, AN "ADDITIVE BONUS", SUCH AS THAT THE EC NOW EMPLOYS, COULD ALSO BE GRANTED AND, IF GRANTED, PUBLICALLY ANNOUNCED, TO COUNTER PARTICULARLY AGGRESSIVE SUBSIDIES APPLIED TO EXPORTS OF OTHER ORIGINS OF A GIVEN COUNTRY.

(5) TRANSPARENCY AND STABILITY SHOULD BE ADDED TO THE MARKET.

For example, USDA could, not later than the beginning of each crop year, announce an "EEP marketing plan" specifying eligible countries and quantities of commodities available for such countries under the program.

If, under this type of scheme, the quantities specified for any individual country had not been contracted for within six months of the announcement of the plan, the quantities specified in the plan could, by public announcement, be reduced. When, on the other hand, quantities in the plan had been fully contracted, the quantities first announced in the plan could again by public announcement be increased.

Alternatively, USDA could limit its annual announcement to a list of eligible EEP recipient countries. Such a step, while not preferable to the suggestion above, would provide improved transparency while also preserving USDA's flexibility to use EEP strategically for purposes of countering foreign unfair trade practices.

(6) THE BONUS SHOULD BE ANNOUNCED ON A DAILY BASIS AND THE SAME BONUS LEVEL SHOULD APPLY TO ALL ELIGIBLE COUNTRIES.

A weekly subsidy, such as used by the EC, might also be an acceptable alternative.

(7) UPON ACCEPTING A CERTAIN QUANTITY OF AN ANNOUNCED BONUS, THE EXPORTER SHALL DECLARE THE DESTINATION.

Unwarranted "nuisance" provisions of current regulations should be eliminated or reasonably amended. For example, qualification requirements currently deny participation to an exporter -- however financially sound and scrupulous its performance with government contracts may be -- simply on the basis that it has not, in the past, exported the commodity to be exported under a particular EEP initiative.

We have no interest in making eligible to participate in this program companies that are not properly eligible; nor have we an interest in loosening appropriate management safeguards. However, these requirements, as they apply to exporters currently participating in the program, appear to us to be anti-competitive and improperly exclusive.

Performance security requirements of EEP are needlessly burdensome. Once the financial capacity of an exporting company is established and, provided the company has a record of good performance on government contracts, the bonding requirements called for under current regulations should be waived for that company.

Likewise, regulations attending entry certification should be eased. In some cases it is difficult, if not impossible, to obtain evidence of entry in the form the regulations currently require. The regulations should allow in the alternative any competent and credible evidence such as certification by the vessel owner, any entity of the buyer's government in its country or in the United States, or a stevedoring firm, etc.. The purpose of the program is not to gather entry certificates of limited format -- it is to export grain.

Current program regulations should be amended to state that, in the event that a vessel sinks or a part of the cargo is lost, the bonus should not be forfeited.

Finally, exporters should not be penalized for failure to meet contract minimum when such failure is attributable solely to the presence of dockage. In accordance with international practice and freighting arrangements, the quantity stipulations of sales contracts provide that quantities are gross; i.e., including any dockage. CCC regulations should correspond.

The management proposals above have been submitted with particular reference to wheat. However, NAEGA notes that these proposals should be applicable to all commodities exported under the export enhancement program.

STATEMENT OF PHILIP JOHNSTON,
EXECUTIVE DIRECTOR OF CARE
ON BEHALF OF THE COALITION FOR FOOD AID

Before the

HOUSE COMMITTEE ON AGRICULTURE

JULY 13, 1989

Mr. Chairman and members of the Committee, I am Philip Johnston, Executive Director of CARE, and I appreciate this opportunity to present testimony before the Committee not only on behalf of CARE, but also on behalf of the other members of the Coalition for Food Aid (Adventist Development and Relief Agency International, Africare, Agriculture Cooperative Development International, Catholic Relief Services, Council for International Development, Land O'Lakes, National Cooperative Business Association, Planning Assistance, Save the Children, World Share, and World Vision Relief and Development, Inc.). My comments primarily concern U.S. food aid programs, with an emphasis on P.L. 480, title II.

CARE, a non-profit agency whose activities are funded primarily through private donations, was established in 1946 by 26 service organizations to assist in relief efforts in Europe following the devastation of World War II. Currently, CARE operates programs for humanitarian and economic development in 40 countries, reaching 35 million people. In the food aid arena, as cooperating sponsors with the U.S. Government, we carry out a wide range of programs in poorer nations, both non-emergency and emergency in nature, reaching 33 million people. For example, we have just completed the pre-positioning of 65,000 metric tons of grain for displaced persons fleeing civil strife in southern Sudan. Following the earthquake in Mexico, CARE and other Coalition members, in cooperation with the Mexican Ministry of Health, provided food commodities under section 416 for rural clinics. With privately donated funds, we assisted a number of small businesses affected by the earthquake to get back on their feet. More than a million landless laborers in Bangladesh work to repair rained out roads, following the annual monsoon, and receive payment in the form of wheat.

These are but a few examples of how food aid is used abroad. The diversity of the cooperating sponsors enables the U.S. to provide food for a variety of programs, reaching a variety of communities in many countries.

Needless to say, our organizations overcome many obstacles when establishing programs in developing countries, and the costs associated with food aid program development and implementation can add up. For instance, recipient country governments provide $24 million in support of CARE's food aid programs. Local currencies from monetization are helpful in some countries where monetization is feasible.

However, cooperating sponsors also must seek funds elsewhere in order to cover all of the special types of programmatic costs associated with food use programs, such as program design and evaluation requirements, transportation, food monitoring, equipment, and professional staff. The Agency for International Development (AID) has provided some dollar assistance for the enhancement of food aid programs, but this has not kept up with the expanding needs in recent years, especially in Africa.

Even though the management requirements of food aid programs are intensive and the logistics involved are complex, the members of the Coalition for Food Aid remain committed to participating in the U.S. Food for Peace program and making the best possible use of these resources to combat world hunger and to contribute to sustainable development. In poor, debt distressed countries we find that in addition to the variety of resources and services our organizations provide, U.S. agricultural commodities provided under P.L. 480 title II and section 416 have directly and substantially contributed to successful relief and development programs.

Our organizations have the ability to target needy population groups, to organize basic development projects at the local level, and to provide services, training, equipment, and technical assistance, thus enhancing the impact of the food provided. We use food to provide incentives for community projects, such as road repair, water supply, reforestation, agricultural land conservation, and sanitation projects, and to provide resources for cooperative and small enterprise development. We supplement health and education programs with food supplies, and when transporting food inland is impossible due to exorbitant costs, the lack of roads or vehicles, or war, our organizations seek to barter the food for foodstuffs or supplies that can be bought closer to the point of need.

Thus, in addition to the important work of assisting people who desperately need food in times of emergency, the Coalition members are able to help the chronically malnourished and to provide a variety of services, technical assistance, and training to help people lead productive lives and to develop sustainable livelihoods. We appreciate that the law promotes a variety of uses of P.L. 480, title II commodities, so tnat emergency and non-emergency programs can be tailored to meet the variety of conditions found in developing countries.

We also are pleased to report that the amendments approved in the Food Security Act of 1985, the FY 1988 Continuing Resolution, and the Agricultural Aid and Trade Missions Act Amendments of 1988, have made the U.S. food program relevant to the changing needs of the 1980's and the 1990's. We see no need for major changes in the law, although we do have suggestions about improving the administration of the Food for Peace program.

De-mystifying the "DCC"

The Food Aid Subcommittee of the Development Coordination Committee (DCC) is a multi-agency group headed by USDA, and includes State, AID, OMB, and Treasury. It oversees the administration of the P.L. 480 and section 416 programs and was established by an Executive Order, with the intention of each agency providing relevant information based on their area of expertise.

However, over time, it seems that each agency has increased its involvement in the process by extending its concerns to those subjects covered by the other members. This has had the unfortunate effect of slowing the decision-making process and making it very complicated and time-consuming to gain approval of food aid guidelines or proposals.

We recommend that each member of the DCC should have authority limited to their agency's area of expertise or operations. For instance, OMB, State and Treasury should be involved for the annual country, budget and commodity planning, but not for approvals of specific projects and reviews during the year, or the development of regulations and guidelines. For title II, AID would be the lead agency and for title I, USDA. These two agencies would review title II proposals or title I agreements, with USDA addressing commodity-related issues, while AID would address development and emergency program issues.

Paperwork Reduction and Multi-year Plans

Section 202(c) of P.L. 480 encourages multi-year agreements for title II programs, subject to the availability each fiscal year of necessary appropriations and agricultural commodities. It further states that in carrying out such multi-year agreements, a nonprofit voluntary organization or cooperative will not be required to obtain annual approval from the U.S. Government to continue the program, unless exceptional and unforeseen circumstances have occurred.

Currently, this provision is not implemented and, if it were, it would eliminate many of the redundancies in paperwork and reporting systems. An abundance of paperwork does not guarantee an efficient, well-managed program. In fact, it is counter-productive since a lot of non-essential information can mask significant occurrences and it is difficult, time consuming, and costly to prepare and to review, both for the U.S. Government and for the cooperating sponsors.

For instance, currently, cooperating sponsors must submit a detailed, cumbersome multi-year operational plan to AID for each program, explaining all facets of the commodity distribution and use, target population, project design, benchmarks, and so on. Oftentimes, in addition to an annual progress report updating and explaining any unforeseen occurrences or needed program changes, they are asked each year to substantially rewrite their multi-year operational plan, even though there are no substantial changes in a program. Further, for each program conducted by a cooperating sponsor, the annual estimates of budget and commodity requirements are submitted.

The approval of an operational plan takes months, because there are many layers in the approval process, starting at the country AID mission, and ending with the DCC. If the regulations and guidance were simplified and clearly stated, and communications between Washington and AID missions were significantly improved, the ability to develop effective programs would be greatly enhanced.

Revising the operational plan each year for an approved program is a costly, redundant procedure.

We recommend that annual program reviews be held at the AID mission level, the paperwork requirements be shortened significantly to include only significant program adjustments, and only the availability of agricultural commodities and funds be reviewed in Washington before the beginning of a new fiscal year.

Further, we recommend that the regulations be revised to reflect multi-year programming and paperwork reduction, simplifying and consolidating program plans and reports. The regulations should emphasize results rather than limiting program design options. As cooperating sponsors with a great deal of experience in the food aid program since its inception 34 years ago, and as organizations that are planning innovative new programs in this area, the members of the Coalition would welcome the opportunity to work constructively with the Administration toward this end.

Overall, if these issues are addressed, we believe the Food for Peace program would be more effective, since the emphasis would be placed on developing successful programs. Again, thank you Mr. Chairman for this opportunity to testify before the Committee. I would be happy to answer any questions you may have or to provide additional information for the record.

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Statement of

CAROL BROOKINS
President
World Perspectives, Inc.
Washington, D.C.

BEFORE THE U.S. HOUSE OF REPRESENTATIVES
COMMITTEE ON AGRICULTURE

July 13, 1989

Mr. Chairman and Members of the Committee:

My name is Carol Brookins. I am President of World Perspectives, Incorporated, a Washington-based analytical and consulting company which specializes in agricultural and trade issues.

I appreciate the opportunity to testify before this hearing today on the subject of our agricultural policy as you begin the important work of formulating the 1990 farm bill.

Introduction

You are writing this legislation at a very crucial time for American agriculture. Despite the hardships caused by last year's drought, American agriculture is on the upswing. We have generally recovered from the severe depression that caused serious harm to our farmers, our agricultural structure and our economy earlier in this decade. Many of the policies that were enacted in the 1985 Food Security Act have helped us improve our export competitiveness, and now our farm products are moving to markets rather than to storage bins. Our competitors have now agreed to seriously discuss with us agricultural trade policy reform—both bilaterally and in the Uruguay Round of multilateral trade negotiations (MTN).

Yet, there are serious challenges that still face our farmers and agricultural sector. First, an improved world market for cereals, soybeans, dairy and sugar—among other commodities—means that the momentum for agricultural policy reform may be reduced under the Uruguay Round.

Second, many developing countries who have the greatest potential to expand their consumption of food products remain in serious economic recession and carry heavy debt; their purchasing power in many cases is still declining.

Third, macroeconomic imbalances continue to threaten the longest postwar recovery in our history.

Fourth, environmental policies may alter the way that we produce, process and market food in the future; this will affect the cost of production and our relative competitiveness in global markets.

And, fifth, pressures to reduce our budget deficit will force us to make choices in how much we can afford to spend on our farm sector and on the priorities where we will spend that money.

All these questions must be addressed in the 1990 farm bill and other policy decisions in a way which will enhance rather than impede our farm sector. Our legislation must provide the policy structure which will allow us to continue to build American agriculture, to strengthen our rural economy, to increase export markets and to open up new, non-traditional uses for our farm products.

Recommendations
The opinion that I hear today from many farm, commodity and agribusiness interest groups is that we need to "stay the course" with the farm policies we enacted in 1985. I agree that we must continue the general approach toward greater market orientation and export competitiveness. But there are changes to consider that would further enhance our objectives.

I'd like to briefly examine a few of those now, with particular relevance to expanding markets.

1. Price Supports. The temptation today is to freeze or raise support prices/loan rates, because market prices are above those levels. This, however, would be a serious mistake, because it would tell our competitors that we are again going to be giving them an umbrella for their own production. Commodity loans, such as for cereals, were originally described as "harvest loans" in the 1970's. They were intended to provide farmers with a borrowing window from the government that would give them flexibility in marketing their crops. The loans were to cover only a percentage of variable production costs. In fact, during our most dynamic markets between 1972-75, loan rates for wheat and corn were at a fraction of market prices—$1.10/bushel for corn and $1.37/bushel for wheat. In 1974, for example, wheat prices climbed to over 6 dlr/bu, and corn to 4 dlr/bu.

The worst decision we could make in 1990 is if—for budget reasons—we send a signal to our competitors that loan rates will be raised. This will not only create a production stimulus overseas, but it will seriously impair our negotiating position in the Uruguay Round.

2. Acreage Reduction Program. The core of the 1985 Food Security Act (FSA) was supply management, despite all of the other initiatives we took to improve market conditions. Our record stocks in 1985 did require a stock reduction policy in order to begin to correct the tremendous imbalance that existed. However, the conditions that created those problems are over. Language in FSA 85 that mandates levels of acreage reduction tied to our carryover stocks is another serious problem for our international competitiveness.

What must be remembered is that we are in competition with many other producing and exporting countries—not only in terms of price but also production volume. Through our massive acreage reduction policy between 1985 and 1988, we took the unilateral supply adjustment in cereal production for the world. This was the case well before the drought sharply cut our stock levels. Looking at wheat, as one example, world stocks were down 40 percent from their 1985 highs in 1988—before the drought—and the U.S. was responsible for more than 80 percent of that adjustment. Yet, all the other sellers benefited from the higher world market price. Additionally, the higher the world price, the lower the export subsidy—or EEP bonus. That means we have less leverage on heavily subsidizing suppliers like the European Community (EC).

Everytime, the U.S. takes a unilateral acreage adjustment, world market prices rise and other countries increase their production. History shows that we can't afford to take another major cutback, while others benefit at our expense, without severely harming our long-term position as a world producer.

Acreage reduction has been described as a necessary evil if there is no politically-acceptable alternative to reduce budget exposure. However, it is a "least best" policy for American agriculture.

Not only does it send the wrong message to other exporters, it raises our own production costs and makes us less competitive. It further discourages development of non-traditional uses for our farm output. What manufacturer of plastic bags today would choose to transform its production operation in order to use corn as a feedstock for biodegradable plastics? Our farm policy tells managers of that industry that there is too great a risk, because our programs are designed to create scarce supplies in an effort to raise per unit prices.

As you develop acreage reduction policy under the new law, I hope you will consider the impact of various options on our competitive position.

3. Production Flexibility. A buzzword universally used in reference to crop program changes for 1990 is "flexibility". There has been a lot written and said about this issue already, and efforts were made under last year's Drought Disaster Assistance Act to encourage production of crops such as oats and soybeans. It is generally recognized that individual crop base regulations and target prices have acted to deter farmers from expanding production of crops that the market price indicates are needed.

I don't personally believe that 1990 is the time for us to be examining radical proposals for converting our crop support structure to a new type of safety net or management structure. However, it is crucial to give our producers back the independence they deserve in making production decisions that reflect good management and make good market sense. Revisions in this area could include considering some adaptation of the former Normal Crop Acreage (NCA) program—permitting flexibility in production for a number of crops included in that base. Additionally, we should consider provisions that would permit production of other non-traditional crops.

Real "market orientation" is not just providing export subsidies to compete with foreign exporter subsidies. Market orientation means giving the producer back his right to make production decisions based on his individual assessment of market opportunities and risks. The government's role should be to provide a safety net to help producers manage risk, not a web of regulations that tie farmers up and keep them from competing based on sound business judgment.

4. Export Impact of Domestic Programs. In the 1985 FSA, you included a Trade Policy Declaration (Sec. 1121) under Subtitle B—Maintenance and Development of Export Markets. I'd like to reiterate the policy you set out in the Act
(Sec. 1121 (b)

(1) provide through all means possible agricultural commodities and their products for export at competitive prices, with full assurance of quality and reliability of supply;

(2) support the principle of free trade and the promotion of fairer trade in agricultural commodities and their products;

(3) cooperate fully in all efforts to negotiate with foreign countries reductions in current barriers to fair trade;

(4) counter aggressively unfair foreign trade practices using all available means, including export restitution, export bonus programs, and, if necessary, restrictions on United States imports of foreign agricultural commodities and their products, as a means to encourage fairer trade;

(5) remove foreign policy constraints to maximize United States economic interests through agricultural trade; and

(6) provide for consideration of United States agricultural trade interests in the design of national fiscal and monetary policy that may foster continued strength in the value of the dollar.

This was, in my opinion, a very significant commitment from the Congress, and I believe that those carrying out the policy have remained essentially true to the letter and the spirit of the law over the past 4 years. As a result, agriculture's contribution to the U.S. trade balance has increased from an estimated $18 billion in FY 89 from $5.4 billion in FY 86.

However, now it may be time to take it a step further and put our own agricultural programs to the test. By this, I am suggesting that the 1990 farm bill include the requirement of an export impact statement for all the domestic farm policies we enact which deal with commodities we trade internationally.

As I have noted previously, we make many decisions on domestic programs that have a profound effect on our ability to market internationally without clearly considering the potential damage they can do over the short-term or a longer period of time. Clearly, not only domestic commodity programs, but other policy decisions outside of agriculture, can adversely affect our ability to compete in world markets.

An export impact statement would be a significant start in directing our focus to the potential costs and benefits of policy choices in terms of lost or gained export opportunities.

5. Food Aid Reliability. The 30-year history of our Food for Peace Program (P.L. 480) has been a success story in providing not only food for hungry people, but resources for countries to build their economies. Over the years, however, the program has become over-burdened with numerous regulations and conflicting objectives.

I know that there is serious interest by Chairman Leahy of the Senate Agriculture Committee to make significant changes in the way the program is operated and managed. My personal view is that P.L. 480 has not been used as well as it should have been over the past fifteen years. The way we operate it in the future could be very important at a time when higher purchasing power throughout the developing world will be crucial in determining whether agricultural trade will expand or contract.

Let us not forget, in this context, that the severe agricultural recession of the 1980s was not due to a sudden explosion in production; rather it was due to a sudden and prolonged collapse in demand growth due to lack of purchasing power in the developing world.

What can we do to improve P.L. 480? Without getting into major details, there are two points that need to be considered particularly. First, we have to decide whether our food aid program really is to be a long-term assistance program to enhance economic progress and build markets, or whether it is to be a surplus dumping program for our commodities in over-supply.

If we want it to be the former, then we have to be a "reliable supplier". By this I mean that we can't just turn off the spigot when we have tighter supplies and good markets. Yet, that is essentially what we do by fixing the Title I budget as a dollar amount, rather than a commodity minimum. So in a year like 1989 when commodity prices rose sharply, and recipient countries were in even greater need of food aid, the volume that we had to provide was cut back sharply. Perhaps, we need, in this context, to also consider multi-year commitments of food aid for countries seriously working on structural economic reform under approved World Bank/IMF programs.

Second, we have to decide whether our food aid should be linked in a country to "self help program" requirements dealing with other economic and social priorities of AID, or whether it should be tied to food system specific policies. My preference would be the latter. And, I say "food system" because I believe that feeding people goes far beyond crop production to education, finance, transportation, processing, marketing, distribution, and importing.

6. Multilateral Trade Reform. I believe we all want the legislation enacted in 1990 to contribute to our goal of negotiating equitable and substantial reform in agricultural trade policy under the Uruguay Round of multilateral trade negotiations (MTN). The fact that agriculture is a key part of the negotiations for the first time in the 40-year history of the GATT attests to its impact in the world economy, and the tremendous distortions that have affected both industrial and developing country markets in recent years.

I have heard Members of Congress say that they wanted to go ahead with the writing our 1990 law—despite the fact that the Uruguay Round is expected to be concluded in December 1990—because they are not going to let foreigners make our domestic policy.

That view is understandable, and certainly an extension of the 1985 law in 1990—which was the alternative being suggested—would have also involved a number of major policy decisions.

But, I do also believe that the Uruguay Round is crucially important for American farmers and American agriculture generally, because of the simple fact that for years "foreigners have been making our policy. This has been apparent in the way that we have had to consistently adjust our production downward to reduce surpluses and save money because foreign competitors were continuing to expand and then subsidizing their surpluses into the world marketplace. In other cases, foreign buyers had unfair trade barriers that prohibited our products from entering their markets.

The future of our agricultural sector depends on whether we succeed in the Uruguay Round. I would measure success through agreements that commit the GATT members to substantial progressive reductions in trade-distorting production subsidies and export subsidies, to similar reduction of import barriers, and to establishing effective rules of conduct and dispute settlement procedures.

Certainly, foreigners will in a sense be making our policy. But, for the first time, we will also be making their policy. The result will enhance rather than harm our competitive position.

Additionally, the Uruguay Round will be vitally important for American agriculture in terms of commitments that can be reached to harmonize national sanitary and phytosanitary regulations and standards, and subject these to internationally accepted standards based on sound scientific principles.

We all know only too well how pressures for major changes in our environmental and food regulations will impact our farm and food sector. While all Americans want a healthy environment and healthy food supply, there are serious questions today about demands for reform coming from many special interest lobbies outside of the agricultural sector. This is true not only in the U.S., but in major producing, importing and exporting countries around the world. I note in passing the hormone issue in the EC, and the recent problem with South Korea over alleged ALAR use on U.S. grapefruit.

A GATT agreement in this area could go a long way toward helping resolve these serious disputes in an equitable manner and toward developing policies that are scientifically sound.

There is no doubt in my mind that not only in this case, but all the other aspects of the agricultural negotiations, our farm bill will be sending an important signal to the other GATT members.

I would recommend specific language in the bill stating your full support for the negotiating objectives and commitment to revising U.S. policy accordingly—if an equitable agreement is concluded.

Conclusion

You are writing a new farm bill in 1990, but let us not forget that this new bill is really only an amendment to a law enacted in 1949. That 1949 law was a follow-up on legislation passed in the early 1930's at the heart of the Depression, intended to help lift rural America out of the economic crisis. At that time, half of all Americans lived in rural communities and roughly 25 percent lived on farms. Virtually all of our farm production was consumed in the domestic marketplace. The choice made to raise rural incomes was to provide support to specific commodity production.

Today, those commodity programs remain the core of our agricultural policy. Yet, America has changed dramatically in these past 50 years. Currently only 27 percent of all Americans live in rural communities, and only 2 percent live on farms. An increasingly large share of production of major commodities moves to foreign markets, and it is obvious that export market growth is crucial for our farm sector because domestic food consumption grows by less than 0.5 percent/annually.

As we approach the beginning of a new century, it is time for American farm policy to evolve in a way that permits our agricultural sector to prosper in a very dynamic competitive global marketplace.

The 1990 farm bill is more than legislation for farmers. It impacts 20 percent of our economy and the decisions of policy makers and businesses throughout the world. While I believe that 1990 legislation is premature in terms of major revision to the way we support our farm sector and our consumers, we must seriously begin considering appropriate policies for the 21st century.

We must look closely at our objectives and see whether current policies are most suited to meet them. We must determine whether we are serving our rural communities most effectively through traditional programs, or whether they in fact can harm economic growth in those areas. We must consider whether we want to support farmers, farm equity, farm income or commodity prices? We must consider whether our educational focus on yield improvement is enough or whether we need to better train agricultural producers in marketing and management skills.

While all these challenges face us, I remain optimistic that we will make good policy choices. American agriculture has survived many crises—some from external developments, and some self-inflicted. We all have learned through the most recent twenty year history that economic cycles are real, and that they have an important function to perform in correcting supply and demand distortions.

Governments cannot legislate "stability" in the dynamic world of commodity production and consumption. Governments can, however, legislate policies that help manage risk. This type of risk management policy is warranted because our food supply is part of our national security. However, the way that we provide this "safety net" will determine our future success in economic terms. More importantly, it will determine the future for those Americans who dedicate their energies and resources to feeding and clothing a growing number of people who depend on them in the "global village."

Thank you.

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Statement
of

Bob Bergland
Executive Vice President
National Rural Electric Cooperative Association

before the

Committee on Agriculture
U.S. House of Representatives

July 13, 1989

Regarding

ISSUES RELATED TO THE 1990 FARM BILL

EXECUTIVE SUMMARY: We should seriously reassess each of the basic components of our agricultural system. Policies and trends observed in a study of the structure of agriculture, A Time to Choose, have accelerated, creating ever-larger, more concentrated farming operations. Present policies do not need to be completely abandoned, but they must be modified. Agriculture is the engine that drives the rural economy and will remain so. However, rural economic development is necessary to diversify the rural economy. Any farm legislation should place the American farmer first, as a strong domestic farm economy is the foundation for rural development and rural economic stability.

STATEMENT OF BOB BERGLAND

Mr. Chairman and distinguished members of the Committee, I am Bob Bergland, a former member of the Committee and a former Secretary of Agriculture, and I am pleased to be able to share with the Committee some of my thoughts regarding the 1990 Farm Bill.

Before I get to that, though, and wearing my present hat as executive vice president of the National Rural Electric Cooperative Association (NRECA),I would like to express, on behalf of the 1,000 consumer-owned rural electric systems and their 25 million consumer-owners in 46 states, our great appreciation for the continuing support of this Committee.

Mr. Chairman, during my tenure as Secretary of Agriculture, I commissioned a study, A Time to Choose, which examined the structure of agriculture. It had been my experience that many of the changes I had seen occurring in agriculture were the direct result of changes in its structure.

I decided that by studying each of the basic components of the structure of agriculture would be the most useful way of finding some of the answers to the concerns that were troubling me and so many other Americans about modern agriculture.

In so doing, we departed from the conventional approach of concentrating our attention and efforts on the whole, the big numbers: total production, total exports, total income and the reliance on national averages.

It seemed the right time to examine the pieces that made up the big pie, to take a closer look at what is going on behind the totals and averages, where individual persons are living their daily lives under the influence of those larger forces.

In March of 1979, I inaugurated a national dialogue on the structure of American agriculture. The dialogue would question how and why the structure of American agriculture developed the way it had, whether or not this was what farmers and the general public wanted, and if not, whether the federal government should step in to help the citizens try to effect changes.

After we collected thousands of pages of testimony, there turned out to be more questions than answers. But the public forums did confirm a widespread desire to learn more about agriculture and its structure, and, if we couldn't get the answers, a sincere attempt was made to hone in on the right questions. My agenda was designed to take us closer to the basic structural questions I felt had to be answered to bring direction to policy.

Although the issues raised at the forums were, on the surface, more oriented towards economics than anything else, everyone involved in the study realized that these were intimately woven into the fabric of our beliefs and values as Americans. The same basic beliefs and feelings were strongly represented in every meeting we held. I'd like to briefly sum up these basic tenets as they were expressed to me and my staff:

- ** belief in the right to private property and the freedom of choice;
- ** belief in the equal dignity and worth of all;
- ** just reward in the quest for excellence provided it is not gained at the expense of another individual's dignity or does not pose a threat to his survival;
- ** promoting access to opportunity, and equity in the distribution of resources, rewards and burdens;
- ** cooperation and share responsibility.

These beliefs and values, then, must be the basic guideposts of our policy.

Time has passed, but questions remain. Two omnibus farm bills have been enacted. And, with the 1990 farm bill waiting in the wings, we are again at a crossroads as to the public policy decisions that will put us on the path we want our agricultural system to take.

I am fully aware of how difficult it is to change some of the very basic characteristics that led to what agriculture is today, but what was true at the time the Structure Project was completed is still very valid today.

We should seriously reassess each of the basic components of our agricultural system. Policies and programs that have been in effect over the last decade have only accelerated the trends we observed then, creating ever-larger, more concentrated farming operations. Present policies do not need to be completely abandoned, but they must be modified.

Specifically, Mr. Chairman, the 1990 farm bill will be a good time to get rid of what I believe is an outmoded concept--bases and allotments for all crops, excepting perhaps tobacco and peanuts for reasons peculiar to those crops. People do plant to protect crop production history of program purposes, even though it may not make sense otherwise.

Instead of using historical bases, I would suggest that we use the cropland base for the farm as a starter. If an acreage setaside is required, it should be taken from the total cropland and let the farmer plant any crop or combination of crops that makes sense depending on local markets and local weather conditions. Any acreage idled under such a plan should be the most fragile and least productive on the farm. Rental payments should be made on those conservation acres based on what those acres could produce as determined by the county ASCS Committee.

Target price payments should be graduated downward as farm size increases and should be made on any crop planted.

Because the U. S. will likely remain heavily dependent on agricultural exports, some sort of farmer-controlled grain reserve programs must be in place to act as the shock absorber if the world crop turns out differently than expected, as is usually the case.

Again, Mr. Chairman, the trends identified in the Structure Project continue a decade later. Large farms with annual sales of more than $500,000 are increasing in number. They constitute only 1.2 percent of the total number of farms, but now annually produce one half the cattle and calves in the country, one half the poultry, 70 percent of the vegetables, one half the fruit and 20 percent of the hogs, but that's increasing rapidly.

These large farms are most prevalent in the Pacific and Central regions of the U.S. They are driving smaller enterprises out of business, requiring the smaller farms to depend on grain farming and nonfarm jobs to stay in business.

At the end of 1987, there were 1.5 million farms selling less than $40,000 of farm commodities per year, netting almost nothing on the farm operation, but earning about $23,000 per family, mostly from nonfarm jobs and salaries.

Mr.Chairman, in your letter of invitation to testify, you had requested comments on rural economic development policies.

These numbers underscore very clearly the importance of rural economic development. Agriculture is and will continue to be the primary engine that drives the rural economy, but, in order to maintain stability, we must diversify that economy. We must provide jobs and opportunity, not only for the thousands of young people who are forced to leave their communities in search of employment, but also for those small, family farmers who need nonfarm income to survive.

We need this diversification for other rural enterprises to maintain their financial viability, and that brings me to something that is near and dear to rural electric systems. More than 250 of our systems are losing consumers. And we are already confronted with a consumer mix that makes it more expensive to provide electricity in rural areas. Typically, a rural electric system has only about 5 consumers per mile of line, and typically, two-thirds of these consumers are residential. Rural electric systems simply don't have the middle sized and large consumers that can use a system's total capacity. Yet, the system must maintain that capacity to meet the "peak" demands of the total system.

That's an expensive way to provide electricity, and that's reflected in our rates, which, on average, are 15 percent higher than those of the neighboring utilities.

That's why rural economic development is and will remain one of the top priorities of rural electric systems.

While we firmly believe that rural economic development must be locally motivated, we also firmly believe that there is a partnership role for the federal government.

This Committee has been supportive of measures which allow rural electric systems to take a leadership role in rural economic development, and for that, we are deeply grateful.

The rural electrification program is a shining example of what an effective partnership between the government and the private sector can accomplish. Rural electric co-ops are locally owned and operated, and the government's role is to facilitate their operation through the provision of affordable capital and technical assistance. As the Congress begins its consideration of rural development legislation, I would urge that it be modeled after this highly successful partnership arrangement

I would also be hopeful that as the Committee addresses U.S. farm policy, you will put the interest of the American farmer first. This has a direct impact on the economy of our rural areas.

A strong domestic farm economy is the foundation for rural development and rural economic stability.

Rural America is just beginning to recover from nearly a decade of farm depression, and the legislation you are currently involved in will certainly be pivotal in assuring that continued recovery.

I would be happy to answer any questions members of the Committee may have.

I thank you for the opportunity to appear before the Committee.

DIVISION OF AGRICULTURE

NATIONAL ASSOCIATION OF STATE UNIVERSITIES AND LAND GRANT COLLEGES

Statement of

Benjamin A. Jones, Jr.
Associate Director
Agricultural Experiment Station
University of Illinois at Urbana-Champaign

Before the

Committee on Agriculture
U. S. House of Representatives

July 13, 1989

Mr. Chairman and members of the Committee, I appreciate the opportunity to appear before you to discuss an issue of major importance to our nation; the re-authorization of Title XIV, "The National Agricultural Research, Extension and Teaching Policy Act of 1977, as amended in 1981 and 1985".

I am Benjamin A. Jones, Jr., Associate Director of the Agricultural Experiment Station at the University of Illinois at Urbana-Champaign, a representative of the Legislative Committee of the Division of Agriculture of the National Association of State Universities and Land-Grant Colleges. The Division of Agriculture represents the administrators of programs of teaching, research, and extension in agriculture, home economics, forestry and veterinary medicine at the 1862 and 1890 Land-Grant universities and the qualifying colleges of forestry and veterinary medicine located throughout the United States. These administrators direct programs conducted through the federal/state partnership described in Title XIV of the Food and Agricultural Act of 1977 as amended.

In 1985 the Congress reaffirmed the need for a publicly supported science and education system in agriculture as a part of national policy and national security. The Congress also made a commitment to the continuing need of providing strong base-funded programs as authorized in the Hatch Act of 1887, the Smith-Lever Act of 1914, and the McIntire-Stennis Act of 1962. The Division believes that a reaffirmation of the 1985 action is important as a part of the 1990 Farm Bill.

The landmark agricultural acts referred to above created the public components of an agricultural research and education system which was and is unique in placing basic, developmental, and adaptive research and technology transfer responsibilities within the same institution, namely the Land-Grant colleges and universities. These special institutions integrated teaching, research and extension in such a way that they reinforced each other and made the collective output greater than the sum of the individual components. Further, these institutions fostered close linkages between themselves, the U. S. Department of Agriculture and eventually the private sector. This has led to a system that is the envy of the rest of the world and emulated by many other nations today.

It is important to note that the landmark agricultural Acts did not focus on individual agricultural problems or issues. The Acts created an institutional structure that put in place and helped maintain an infrastructure of trained people, facilities, equipment, support services and communication networks, that was capable of addressing local, state, and national problems. Over the years the investment of federal funds has leveraged much State and private support so that now the public institutions of agriculture are more effective than they would be if they depended only on federal support. The federal support, however, plays an important and unique role within the system.

By educating agriculturalists and fostering the development and use of productivity enhancing, cost-cutting, quality improving agricultural technology, this unique research and development system propelled American agriculture into world preeminence and has kept it there for a century. Because of the system, the United States has had the scientific knowledge and the institutional capacity to deploy that knowledge to address agricultural problems when and where they arose.

The national agricultural research and technology transfer system authorized and supported through Title XIV fits well the special and complex characteristics of U. S. agriculture. The system is dispersed across the nation just as agriculture is dispersed across the nation. Program planning, priority setting, financial support, program management and decision-making are not centralized in a federal department or agency. But a coordinated system allows a rapid response to changing agricultural research needs on a state, regional, national and world level. Witness the rapid response of this system in the application of new developments in biotechnology towards solving problems in agriculture.

The National Agricultural Research, Extension, and Teaching Policy Act of 1977, as amended in 1981 and 1985 has served the nation well. Today the research and technology transfer system authorized therein provides U. S. consumers with a high-quality, nutritious, safe food supply that requires the lowest percentage of disposable income of the citizens of any country in the world. Truly the public, which has invested in this system, is the beneficiary of the returns on that investment. Therefore, the Legislative Committee urges the Congress to reaffirm its commitment and to re-authorize the basic elements of the Title XIV with updating to address issues of current public concern.

The Division of Agriculture could list several pages of issues of current public concern which could be addressed in the revision of Title XIV. However, let me suggest five broad categories for your consideration:

1. **Quality of the environment including water, air and land.** The public is greatly concerned about the quality of the environment and particularly the

quality of our water from both surface and subsurface supplies. The Land-Grant university system is keenly aware of this concern and has identified water quality as one of its highest priorities for research and technology transfer. This system is eminently qualified to address this issue because much of the research needed is situation and site specific and must be conducted at many locations throughout the country. The system has been conducting water quality research and outreach programs for many years, however these programs need to be greatly enhanced by support for long-term continuing studies and by competitive grants which can elicit the minds of the best scientists, irrespective of their affiliation. We would urge the Congress to affirm the USDA as the lead federal agency for the coordination of all federal research on non-point water quality. With the linkages the USDA agencies have with the Land-Grant system and with the current research planning mechanisms, fostered in part by the Joint Council on Food and Agricultural Sciences, new knowledge can be generated and transmitted to the user with the greatest speed at the least cost. To accomplish this the Committee may wish to develop a new subtitle for Title XIV.

Along with concern for water quality the public desires a more judicious use of chemicals in agricultural production. To accomplish this will require multi-disciplinary research and out-reach programs with long-term base support. The Land-Grant university system, with USDA and other agencies cooperating, provides the opportunity to draw upon many disciplines to address systems-related problems with a broad cross-section of expertise. No other source is so readily available but a commitment of the Congress to such a program, with perhaps the development of a new subtitle in Title XIV, is needed to strengthen and enlarge the research and extension education required for knowledge based decision making.

The global atmosphere is changing and there are many theories why, but limited scientific data. Agriculture will be greatly impacted by changes in precipitation, temperature and air quality if some of the theories advanced are true. A new subtitle in Title XIV on "Global Change and the Environment" could signify the intent of the Congress to have the federal/state partnership universities address the issue at an early date.

2. **Competitiveness in world markets.** It is well recognized that the United States must compete in a world economy and must deal with global economic issues. The nation's balance of trade is greatly impacted by the ability of the U. S. to sell agricultural products around the world. The United States has been a leader in agricultural production and it is essential that research and development continue so that United States producers can remain competitive in world markets. In order for the nation to continue to do so, it must depend on being the first adopter of new technology so it will be the least-cost producer in world markets. Technology knows no political boundaries and other nations have and are gearing their research programs to that of adaptive research, leaving the high-cost basic research to countries such as the United States. It is not only essential that the federal/state partnership continue to provide adequate support for basic research but also provide adequate support for applied and development research as well as aggressive outreach programs for the deployment of new technology so that the United States will remain competitive in world markets.

Agriculture is and must remain a technology driven industry in the U. S. if it is to compete in world markets. Otherwise U. S. agriculture will loose the competitive edge to other nations just as the U. S. has lost its competitive edge in various areas of our industrial sector.

The capacity of the public supported agricultural research and education system to conduct adaptive research and the related extension activities is eroding. That capacity can be enhanced by sound research and education policy at the federal level. Such policy is extremely important to achieve national goals of agricultural competitiveness while conserving natural resources, preserving and enhancing the environment, and providing safe high-quality and affordable agricultural products. An affirmation of this intent by the Congress would strengthen Title XIV.

The United States sells many of its food products to other nations of the world as raw materials. The potential to develop value-added products and the use of agricultural materials as chemical feedstocks provides one opportunity for the U. S. to enhance its balance of trade. Utilization research is being supported in part by various commodity groups but this in many cases is short-term research. A public commitment to research in this area should pay handsome returns to public investment. Also, such research holds the promise of the development of biodegradable materials that will provide a partial solution to our waste disposal problems. The Division urges serious consideration of a new subtitle to affirm the intent of the Congress for the nation to gain a greater return from its agricultural products by adding to their value.

3. **Revitalizing rural America**. A strong America requires a strong rural America. As a result of financial stringencies of the mid 1980's and the drought of 1988, large portions of rural America are under stress to maintain their infrastructure and their vitality. Title XIV should reemphasize the commitment of the Congress to initiate or continue programs that will foster the changes that are necessary for rural America to continue to be a strong contributor to the economy of the United States. Rural Development Centers have made major contributions to solutions in the past, but their roles must be enlarged and their base of support strengthened.

The future of our youth everywhere is another national concern. Research is needed on the significant changes in the economic and family structure that have resulted in placing youth at-risk. The symptoms of the problems are school dropouts, young people leaving the educational system who are unable to read or to function in the work-a-day world, teen-pregnancies, substance abuse, child neglect and abuse, in essence a national neglect of children and families. Such issues can be addressed by socio-economic research and education using the diversity and expertise of major socio-economic departments in Land-Grant universities as resources.

In order to address the issues stated above we recommend that the Congress identify socio-economic studies as a sector for competitive grant funding. Through the efforts of professional societies, universities, USDA, and other agencies, critical needs have been identified for research and education in these areas so that a competitive grants program could be initiated quickly with the likelihood of acquiring short-term as well as long-term solutions to these issues of social concern.

4. **Human resource development.** A major long-term challenge for agriculture in the 1990's is the development of a pool of technically-trained persons to keep the industry competitive internationally. Additional funds are needed to support graduate students in the life sciences, engineering and agribusiness to train the next generation of scientists, engineers, teachers and agribusiness leaders. It is imperative that the number of competitive graduate fellowships be increased if we are to attract sufficient intellectually gifted students to meet the needs of the future. There will be a significant shortage of scientists and engineers available for continued research and development in agriculture and related areas unless the pool is significantly expanded.

5. **Research facilities.** Early in my statement I referred to the facilities that have evolved over the years as a result of the federal/state partnership arrangements. Today the physical facilities housing our educational programs are in great need of being enlarged and upgraded. Science and education are changing at a tremendously rapid pace and what were adequate facilities just a few years ago are now very inadequate. A reaffirmation of a commitment to a joint federal/state program of updating the physical facilities for agricultural related programs such as described in the Research Facilities Act would strengthen the entire educational program.

Mr. Chairman, as I have indicated the Division of Agriculture is pleased with the basic soundness of existing legislation contained in Title XIV, as amended. The bases of the Title have stood the test of time - the Hatch Act for over 100 years, the Smith-Lever Act for 75 years and the McIntire-Stennis Act for over 25 years. The changes proposed by the Division of Agriculture would strengthen Title XIV which provides the strong base from which our national agricultural research and technology transfer system produces and transmits the findings that undergird this nations' food and fiber production, processing, and distribution system. I would be pleased to respond to any questions.

TESTIMONY OF ROBERT GREENSTEIN
DIRECTOR, CENTER ON BUDGET AND POLICY PRIORITIES
before the
HOUSE COMMITTEE ON AGRICULTURE

July 13, 1989

I appreciate the opportunity to appear before the Committee today. I am Robert Greenstein, director of the Center of Budget and Policy Priorities here in Washington, D.C. The Center is a non-profit organization that conducts research and analysis on a range of public policy issues affecting low income families and individuals and that has an emphasis on the operations of the nation's domestic food assistance programs. The Center's work is funded primarily by foundations.

Prior to starting the Center, I served in USDA as Administrator of the Food and Nutrition Service in 1979 and 1980 and as Special Assistant to Secretary Bergland for food and nutrition issues in 1977 and 1978.

I would like to focus in my testimony today on issues relating to food assistance programs, and particularly to the food stamp program, which comes up for reauthorization next year.

The Status of Hunger and Poverty in the U.S.

Unfortunately, hunger and poverty remain at unusually high levels in our country. In 1987, the fifth year of an economic recovery, the poverty rate was higher than in any year of the 1970s -- including the worst recession years of that decade. Although the national unemployment rate in 1987 was at about the same level as in 1978, the poverty rate was considerably higher in 1987 -- and eight million more Americans were poor.

Moreover, as a new Census Bureau study shows, those who are poor have grown poorer in recent years. The amount by which the income of the average poor family falls below the poverty line was greater in 1987 than in any year since 1962, after adjustment for inflation. The proportion of the poor who fall into the group that might be termed the "poorest of the poor" -- those with incomes below *half* the poverty line (or less than $4,528 for a family of three in 1987) -- was at its highest level in more than a decade.

The rise in poverty rates among children is particularly disturbing. One of every five children now lives in poverty; among minority children, the poverty rates are at least twice this high.

In addition, the numbers of both white children and black children who fall into the ranks of the "poorest of the poor" -- i.e., who fall below *half* of the poverty line -- have jumped more than 50 percent since 1978.

It should also be noted that despite the frequent media focus on the inner city, poverty has grown as fast or faster in rural as in urban areas -- and is now substantially higher in rural areas. In 1987, one of every six Americans living in nonmetropolitan areas was poor, according to the Census data. One in eight residents of metropolitan areas was poor.

In fact, poverty rates are nearly as high in the nation's rural areas as they are in the central cities. Some 16.9 percent of all residents of nonmetropolitan areas in the U.S. were poor in 1987. Some 18.6 percent of all residents of the nation's central cities were poor. Among whites, poverty rates are as high in nonmetropolitan areas as in the central cities. Among blacks and Hispanics, poverty rates are *higher* in nonmetropolitan areas than in the central cities.

Poverty rates are also particularly high among children in nonmetropolitan areas. Indeed, one of the most shocking statistics is the poverty rate for black children living in nonmetropolitan areas; this rate stands at 57 percent. This means that more than half of all black children living in rural America are poor. The poverty rate for black children in rural areas is now much higher than the poverty rate for black children in the central cities.

Just as the high poverty rates in rural areas belie the common image of a poor person as an inner city dweller, so, too, do the Census data challenge the mistaken notion that the increase in poverty over the past decade has resulted primarily from women (especially minority women) having children out of wedlock. The facts are that the increase in the number of poor people since 1978 was greater among whites than blacks -- and greater among two-parent families than among single-parent families. Refuting other common misperceptions, the data also show that the number of poor people on welfare failed to grow during this period, but the number of working poor people burgeoned. The number of people who work but remain poor jumped 28 percent from 1978 to 1987. Of the 32.5 million Americans now living below the poverty line, approximately 18 million live in a household where someone works but the household remains poor.

In short, the increase in poverty has been widespread -- rural as well as urban, white as well as minority, among married families as well as among single-parent families, among working families as well as among those not working.

Not surprisingly, this increase in poverty has been accompanied by an increase in hunger. Surveys of soup kitchens and emergency food pantries continue to show increases in need each year.

It may seem surprising, at first blush, that these surveys have continued to provide indications of increasing levels of hunger in recent years, despite economic recovery and some reduction in poverty rates since the recession of the early 1980s. But, here, another critical factor has come into play -- the impact of soaring housing costs borne by the poor.

New data released a few months ago by the Census Bureau and HUD show that in 1985, *some 45 percent of all poor renters in the U.S, were spending at least 70 percent of their income for housing costs* (including rent and utilities). Two-thirds of all poor renters were spending at least half of their income for housing. And 85 percent of the poor renters were paying more than 30 percent of income for housing -- or more than the maximum amount considered affordable for these households under federal standards set by the Reagan Administration. (The data show that poor *homeowners* bear high housing cost burdens as well -- with about one-third paying at least 70 percent of income for housing and three-fourths paying at least 30 percent of income.)

The housing cost burdens of the poor have climbed quite sharply in recent years; the number of poor households has mushroomed at the same time that the number of low rent housing units substantially declined. The result, documented in the Census data, is an acute shortage of low rent housing. Furthermore, since the demand for low rent housing now far exceeds the supply, increases in rental costs have generally been more rapid in low income communities than in non-poor areas.

These high housing cost burdens have a major impact on poor households in urban and rural areas alike. For example, the new housing data show that 72 percent of all poor households in nonmetropolitan areas paid at least 30 percent of their incomes for housing costs in 1985, or more than the maximum amount considered affordable under the HUD standards.*

Meanwhile, Federal low income housing assistance reaches only a modest fraction of these households. In 1987, only 29 percent of all poor renter households in the country received federal, state, or local housing assistance. Unlike Medicaid, food stamps, SSI, or AFDC, low income housing assistance is provided on a discretionary rather than on an entitlement basis. In many areas, poor households languish on waiting lists for years before they can receive housing assistance.

As a result of these developments, an increasing number of poor households find it difficult if not impossible to pay the rent and utility bills and still have enough resources left over -- including food stamps -- to buy sufficient food to last through the month. Since rent and utility bills are fixed, purchases for food constitutes one of the first items that gets squeezed.

If rent or utility bills are missed instead, as can occur, this can lead to shut-offs and evictions -- and in some cases to homelessness. In short, the new housing cost data show quite clearly that large numbers of poor households are averting homelessness only by paying extraordinarily high proportions of their limited incomes for housing, which in turn makes it very difficult for them to buy enough food to get an adequate diet at the same time.

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*We are currently analyzing the new data on the housing costs of the rural poor and should have more information on this matter by the fall. We will be pleased to provide it to the Committee at that time.

Looking Toward the New Farm Bill: What To Do?

Last year the Congress -- and this Committee -- took some steps to address the growth of hunger in the U.S. by passing the Hunger Prevention Act of 1988. The Committee is very much to be commended for this action.

Unfortunately, however, it cannot be realistically expected that this Act will result in a substantial diminution of these problems. The main purpose of the Hunger Prevention Act was to prevent matters from getting worse as a result of the disappearance of most of the surplus commodities that had been distributed to poor households in prior years through the Temporary Emergency Food Assistance Program (TEFAP). The principal provision of the Act was a modest upward adjustment in food stamp benefits of $2 to $3 per person per month to help cushion the effect of the drying up of most of the TEFAP program (as USDA's once-large surplus stocks dwindled).

To help address the very serious hunger problems our nation continues to face, I would urge the Committee to consider further action next year. I recognize that such action will require resources, that reducing the deficit is essential to our nation's future economic health, and that, in any event, next year's budget resolution (and any new Congressional-White House budget agreement) will have much to say about whether such resources will be made available to this Committee. I would argue, however, that getting our fiscal house in order involves a reordering of priorities along with reducing the deficit -- and that one of the leading priorities should be efforts to ease poverty and hunger, especially among the nation's children.

I would call the Committee's attention to recent Census data and recent studies by the Congressional Budget Office. The Census data show that the gap between rich and poor families in the U.S. has now reached its widest point in 40 years. The CBO study found that from 1979 to 1987, the average income of the wealthiest fifth of families with children rose 11 percent (or more than $7,000 a year, after adjusting for inflation), and the average income of the "middle" fifth of families with children remained essentially unchanged. But the average income of the poorest fifth of U.S. families with children plunged 21 percent, after adjustment for inflation, CBO found. If the rich are getting richer and the poor are getting poorer -- a trend that seems undeniable and that dates back to the early 1970s -- this is occurring most sharply among families with children.

I believe one of our top national priorities should be to seek to assist the impoverished children in these families -- both by easing their destitution and by increasing the chances that they and their families will be able to achieve self-sufficiency and earn enough to lift themselves out of poverty.

The Role of the Food Stamp Program

In this vein, I would like to suggest consideration of several changes in the food stamp program as part of next year's reauthorization process.

1. Helping poor families and children avoid having to choose between paying the rent and getting enough to eat.

I would urge that consideration be given to modifying the manner in which the food stamp program treats housing costs when food stamp benefit levels are determined. In theory, the food stamp benefit structure is supposed to ensure that poor households have enough resources -- including their food stamps -- to purchase a low cost but nutritionally adequate diet, after they meet the cost of other necessities such as paying the rent. This goal is supposed to be achieved by providing a deduction from household income (when food stamp benefit levels are computed) for "excess shelter costs." Excess shelter costs are defined as housing costs that exceed 50 percent of a household's net income.

The problem is that for households that are not elderly or disabled, the shelter deduction is limited to $170 a month -- even if a household's excess shelter costs are greater than this. While elderly and disabled households are allowed to deduct the full amount of their excess shelter costs, other households -- principally families with children -- are not. This means that the very families that face the most severe housing cost burdens -- families that do not receive any HUD housing aid and that pay extremely high proportions of their income for housing -- are the families that are not permitted to deduct the full amount of their excess shelter costs. (By definition, families with lower housing cost burdens and a smaller amount of excess shelter costs get to deduct their costs in full.) Under the current food stamp benefit structure, families with very high shelter costs are thus *assumed to have money available for food that actually must go to pay the rent* -- and as a direct result, their food stamp benefits are set at unrealistically low levels. In short, the current food stamp benefit structure effectively compels some of these families to choose between paying the rent and utility bills and feeding their families adequately throughout the month.

It is especially inequitable that families with children should be denied the right to deduct their excess shelter costs in full when such a right is provided to the elderly and disabled. The Census housing data show that the housing cost burdens of poor families with children are generally more severe than those of the elderly poor, because many of the elderly poor own their homes and have long since paid off their mortgages.

The current structure of the food stamp shelter deduction dates from the Food Stamp Act of 1977. At the time that Act was passed, it appeared that a ceiling could be placed on the shelter deduction without causing widespread hardship. (There was no ceiling on the deduction prior to the 1977 Act.) But what no one could know in 1977 was that the low income housing market would change radically over the next decade. In 1978, the number of low-rent housing units (defined as units renting for no more than $250 a month, as measured in 1985 dollars) *exceeded* the number of households with incomes below $10,000 a year. By contrast, in 1985, there were *3.7 million fewer low rent units* than there were households below $10,000, a sharp reversal of the conditions that prevailed only seven years earlier. The result has been a stunning increase in the housing cost burdens of poor households.

I have heard it said that while all this is unfortunate, it is an issue that should be addressed through housing programs, and not through the food stamp program. To deny that the food stamp program has an important and necessary role here is shortsighted, however. Federal housing programs are not entitlements, and only 29 percent of all poor renter households receive federal, state, or local housing aid. To make low income housing assistance an entitlement and assist more of these households would cost *more than $15 billion a year*. It simply is not realistic to expect the housing programs to tackle these problems fully in the foreseeable future.

As a result, it is essential that we attempt to assure that those families which bear housing costs that consume most of their incomes should not have to choose between paying the rent bill and missing meals -- between hunger and, in some cases, homelessness. For about $400 million, this serious flaw in the food stamp benefit structure can be remedied -- so that food stamp benefits are more adequate for those burdened by severe housing costs, and so that poor families with children are treated in the same manner as elderly and disabled households when food stamp benefit levels are determined. (I would note that this change would not make any household eligible for food stamps that is not eligible under current law; what it would do is assure that some very poor households now on the program who bear especially high housing cost burdens received a more adequate level of food stamp support.)

2. Eliminating Disincentives for Poor Youth to Get Education

Another anomaly in the food stamp benefit structure involves its treatment of students from poor families who attend college. Those who attend college have a far greater likelihood of escaping poverty and becoming self-sufficient than those who do not. Yet while a drop-out or a high school graduate who does not attend college may be eligible for food stamps (if his or her household has sufficiently low income and assets), a poor student who does go on to college is automatically disqualified from the food stamp program simply as a result of the college attendance (unless the student works at least half-time or in a work-study program, is the parent responsible for the care of a young child, or is handicapped).

The principal purpose of the provision restricting student eligibility is eminently worthy of support -- it was to ensure that students from middle income families who are living away from home do not declare themselves independent, claim poverty, and receive food stamp benefits. But the provision is so sweeping that it also disqualifies students who are legitimately poor and who live, together with their parents and siblings, as part of a family that is poor. Moreover, this provision of the law can be particularly troublesome in areas where a sufficient number of half-time jobs for students are not available, and students seek but are unable to find such jobs. This can occur, for example, in rural areas (with community colleges) in which job opportunities are limited.

This provision of law, in its current form, also represents unwise social policy. A growing number of Americans are finding that a high school diploma is no longer sufficient to enable them to find a job paying enough to keep their household out of poverty. Census data tell us that since the late 1970s, the poverty rate among working-age adults (age 22 to 64) with a high school diploma but no college education has risen sharply -- and is now *more than double* the rate for adults with one or more years of college. This is true in both rural and urban areas. In fact, in just the nine years from 1978 to 1987, the poverty rate in rural areas for adults with a high school diploma, but no college education, jumped by two-thirds. Moreover, among black adults, poverty rates have actually risen *faster* since 1978 among high school graduates (without any college education) than among drop-outs lacking a high school diploma.

In short, our increasing technological economy is demanding higher levels of education and skills, and in many cases, a high school diploma no longer suffices. Poverty rates continue to remain low among those with college education, at the same time that they have been climbing sharply among high school graduates. It is increasingly apparent that college is one of the best routes out of poverty for those low income youth striving to achieve self sufficiency. We should seek to encourage, not to discourage, these youth to pursue their education.

Accordingly, we should not penalize poor youth who attend college by taking away their food stamps and lowering the benefits provided to their families. Legislation passed by this Committee and the full House of Representatives in 1987 (but not acted upon by the Senate) would remedy this problem. The legislation, authored by Rep. Leon Panetta, would provide that if a student who is poor lives with parents or guardians as part of a poor family, the student should not be disqualified from food stamps simply because he or she is in college. I would urge the Committee to revisit this issue next year. The food stamp program should not be in the position of discouraging students who are poor from continuing their educations -- or of reducing the benefits provided to a student's family if the student stays in college rather than dropping out -- especially if the student looks for but cannot find a half-time job.

3. Improving incentives for child support

One major cause of poverty among children is the low level of child support provided by many absent fathers. In 1985, only 61 percent of the mothers of children whose fathers were absent were covered by child support awards. And of those who had such awards and were supposed to receive child support payments, more than half either received no payments or received less than the amount owed.

These statistics apply to *all* children, regardless of income level. For poor children, the picture is considerably more grim. For example, in 1987, child support payments were received for only 14 percent -- or just one in seven -- of the families with children on AFDC.

The welfare reform legislation passed last year placed considerable emphasis on strengthening child support collections, especially for children on AFDC. Increased collections hold the promise not only of alleviating child poverty, but also of reducing need for and dependence on AFDC (and consequently of reducing government costs).

Unfortunately, however, a significant inconsistency between the AFDC program and the food stamp program now serves to hinder efforts to boost child support collections for children currently on AFDC. While this Committee and the House acted to remedy this issue in 1987, the Senate did not act upon it. This issue, too, needs to be revisited next year.

One key to tracking down the absent fathers of children on AFDC -- so that child support payments can begin to be extracted from them -- is often the efforts of the mother in helping authorities to locate and track down the father. Such efforts on the part of the mother can be emotionally wrenching, and at times, can even carry an element of danger for the mother.

Not too long ago, the welfare system effectively discouraged the mother from cooperating in these efforts. For each dollar collected from the absent father in child support payments, the mother's AFDC grant was reduced one full dollar. As a result, the mother and her children gained nothing from these efforts.

Five years ago, as policymakers began to give far greater attention to the need to increase child support collections, Congress altered this aspect of the welfare system. The House Ways and Means and Senate Finance Committees concluded that a mother on AFDC should be allowed to keep $50 a month in child support collections as an incentive for her to help track down the absent father. Otherwise, an AFDC mother who helped track down the father (and thereby saved money for the taxpayer) would be no better off than an AFDC mother who did not help.

What the Ways and Means and Finance Committees did not consider, however, is that the food stamp benefit structure partially undermines the incentive provision they wrote into the AFDC statute. Under the food stamp program, the $50 in child support which the mother is allowed to keep is counted against her food stamps -- and her food stamp benefits are reduced as a result. As a consequence, the overall net gain to the mother for helping to track down the absent father is reduced to between $27.50 and $35 a month.

Moreover, an element of complexity and a potential source of error is added into the welfare system. Caseworkers have to remember to disregard the $50 when computing AFDC benefits but to count it when computing food stamp benefits.

The wise policy would be to make the food stamp program consistent with AFDC and to disregard the $50 for AFDC and food stamp both for households participating in both programs. This would significantly boost the incentive for welfare mothers to help track down absent fathers and should lead to more child support collections.

In 1987, Rep. Panetta placed such a provision in food stamp welfare reform legislation that was approved by this Committee and the full House. Initially, in the welfare reform conference last summer, House and Senate negotiators from the House Ways and Means and Senate Finance Committees agreed to include the provision in the final welfare reform bill. However, the bill was "financed" by these two committees, and at the end of their deliberations they found themselves to be over their limit. Several provisions, including this food stamp provision, were dropped as a result; the food stamp provision was one of the last provisions to be dropped in the welfare reform conference. Hopefully, it can be reconsidered next year.

4. Asset Limitations

Another area meriting examination is the limit placed on the value of automobiles that food stamp households may own. The current limit is the same limit written into the Act in 1977. It has not been changed since. Yet from 1977 to the present, the Consumer Price Index for used cars has risen 120 percent.

In 1984, President Reagan's Task Force on Food Assistance noted that the limit had not been modified since 1977 and recommended a modest upward adjustment. The Task Force said that the lack of any adjustment in the limit was resulting in denial of benefits to some legitimately needy households, such as unemployed households who had purchased a modest car while they were working.

In 1985, this Committee did approve an adjustment in the limit, but this was dropped in conference with the Senate. By the time of next year's farm bill, another five years will have passed -- and as a consequence, the limit is now significantly more stringent than it was at that point.

I would also note that the food stamp automobile limit is a "market value" limit rather than an "equity" limit, meaning that a household can be disqualified for food stamps even if it has little equity in its car and would get little for selling it. Moreover, forcing a household to sell its car may make it more difficult for an unemployed household to find work again, especially in rural areas.

5. Improving the Operation of the Food Stamp Program in Rural Areas

Finally, measures should be considered to make the food stamp program more accessible to the rural poor. The Subcommittee on Domestic Marketing, Consumer

Relations and Nutrition conducted a hearing on this subject in May. A list of recommendations were compiled at the hearing, and I understand that the Subcommittee plans to devote attention to this area over the next year. I applaud the Subcommittee's efforts. (Since I testified at that hearing, I will not discuss this area here, but do believe it to be of considerable significance.)

I would note that the food stamp program is of substantial importance in rural America. A study issued by the Census Bureau this spring shows that during the 32-month period covered by the study, nearly *one in every six* residents of the nation's nonmetropolitan areas received food stamps for at least one month. At the same time, the report also found that fewer than one in 25 received food stamps in *every* month in this 32-month period. These findings indicate that large numbers of low income rural households rely on food stamps to help them through periods of temporary hardship.

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Mr. Chairman, that concludes my testimony. Let me say that I recognize that the testimony is incomplete. It does not, for example, cover the new program established under the Hunger Prevention Act that provides for USDA to purchase and distribute commodities to soup kitchens. The commodity purchase programs established under that Act are very new; and I feel I do not yet have enough information about how they are working to make recommendations in this area. I hope the Committee will examine the operations of these programs in the months ahead, which will place us all in a better position to assess them.

I would also add that I would recommend continuation of the Puerto Rico Nutrition Assistance Program at adequate funding levels.

TESTIMONY OF ELLEN HAAS

EXECUTIVE DIRECTOR

PUBLIC VOICE FOR FOOD AND HEALTH POLICY

Mr. Chairman, I am Ellen Haas, executive director of Public Voice for Food and Health Policy, a nonprofit research, education and advocacy organization that advances the consumer interest in food and agricultural policymaking. We are pleased to have been invited to present our views on the performance of the Food Security Act of 1985 and our concerns about issues that need to be addressed in the 1990 Farm Bill.

The American consumer has an enormous stake in the development of a strong, productive agricultural sector. Consumers spend about $450 billion annually for food, both at home and away from home. Although those expenditures have increased in recent years, they continue to decline as a share of disposable income. This decline has been made possible by increasing productivity in the agricultural sector.

Consumers have invested heavily in this productivity growth through the prices and taxes that they have paid to support farm incomes. And as investors, consumers expect to share equitably in the benefits of increased farm productivity.

The Food Security Act of 1985 made significant progress in some policy areas toward enabling consumers to benefit more equitably from productivity growth in agriculture. The reduction of price-support levels, for example, has benefitted both farmers and consumers. It helped reduce inflationary pressures on domestic food prices at the same time that it helped enhance the competitiveness of U.S. agricultural commodities in world markets. And continued income supports have helped cushion the impact of lower market prices on farmers' cash flow.

In numerous other areas of concern to consumers, the record of the Food Security Act of 1985 is not as impressive, and much more needs to be done to make policies both more equitable and more effective. Given the limits to our time today, I will share with you only our concerns about dairy policies, the sugar program, and the food safety issues that need to be addressed in the 1990 Farm Bill.

DAIRY POLICIES

American consumers' $54 billion annual expenditure on dairy products gives them a huge stake in U.S. dairy policies, which effectively set dairy-product prices. Federal price supports have been kept at attractive levels for dairy farmers, who have responded by adopting technologies that have boosted productivity of dairy cows three-fold since 1950. However, high and inflexible milk price supports authorized in legislation such as the 1977 and 1981 agricultural acts caused large, expensive surpluses and effectively prevented consumers from sharing in the dairy sector's productivity growth. In the early 1980's Congress moved to limit the budgetary damage from high support prices and expensive surpluses by authorizing producer assessments and voluntary diversion programs.

It was not until the Food Security Act of 1985 authorized the use of triggered adjustments in price support levels that real progress was made toward a more equitable distribution of the benefits of productivity in the dairy sector. However, the policy was slow in being implemented, and it was interrupted by the 1988 emergency drought legislation, which in our view was an unnecessary revision of the 1985 act.

In 1985, we supported a persistent and incremental approach to price-support reduction that would continue to protect dairy producers' incomes. We continue to support that approach. But we feel that consumers still do not share equitably in the dairy sector's productivity, and that substantial adjustments in current policy will be required to ensure that they do. These adjustments will involve reductions in price supports as well as changes in federal market orders. We are currently undertaking a study of dairy policies with the support of the Ford Foundation, and in the near future we will have more specific recommendations to make regarding price supports, marketing orders, the role of reconstituted milk, and the use of butterfat content in milk pricing.

SUGAR PROGRAM

While a number of policy initiatives in the 1985 Act for grains, feedgrains, and dairy products were in the right direction, the sugar program was not. The sugar program remains the only major commodity program of the 1985 Act in which no progress was made in improving the position of U.S. consumers.

The consumers' stake in the sugar program is, as for dairy, a very large one. The average American consumes about 130 pounds of added sweetener each year. Over half of that amount is corn sweetener. Because of the sugar program, U.S. sugar prices are currently 70% higher than spot prices on the world market, and corn sweetener prices are not far behind. As recently as last year, the domestic price of sugar was nearly triple the world price. The General Accounting Office (GAO) estimates that the cost of the program to American consumers has averaged over $3 billion annually during much of the 1980s.

In contrast to other programs, each sugar producer's benefits cannot be constrained by payment limitations because they are the result of import quotas that hold U.S. sugar prices above world-market levels. The import quotas have enabled billions of dollars to be transferred from consumers to a relative handful of U.S. sugar producers. In fact, each of the 12,600 sugar producers reaped what amounts to an astounding $260,000 from the import quotas according to a 1988 GAO report. By comparison, in 1987 annual program benefits averaged $7,100 for milk producers and $5,600 for farmers.

We recognize the difficulites of establishing an effective and equitable policy for a commodity that depends heavily on imports when international competitors have established protectionist policies. Nevertheless, we feel that the threat of unfair foreign competition is a trade issue that can be handled more equitably and efficiently through other policy approaches that would achieve a better balance of benefits between consumers and producers.

FOOD SAFETY

As important as the income- and price-support programs are to consumers, food safety is the issue that is of paramount concern to consumers today. Concern about the health risks of pesticide residues in foods has been building and is currently at an all-time high. At the same time, farmers are becoming increasingly alarmed about the loss of public confidence in the safety of the food supply. Consequently, we feel that conditions have never been more favorable for Congress to incorporate meaningful food-safety provisions into the 1990 Farm Bill that will address both consumers' need for protection against the hazards of pesticide residues and farmers' desire to avoid repetitions of the food-safety crises of the past six months.

Earlier this year, as part of our Food Forum Education Project, which is supported by the Kellogg Foundation, we brought together representatives of diverse interests throughout the food system to examine pesticide-residue issues. We asked the participants of the forum to develop a range of policy options for improving the ability of food production and marketing systems to achieve the food-safety objectives that I know we all share. Many participants felt that while regulation of pesticides through registration and tolerance setting was crucial to ensuring the safety of the food supply, policy efforts needed to focus on the marketplace to ensure that farmers and food marketing organizations can respond well to consumer concerns. Some of the recommendations that emerged from that meeting include the following:

Remove Barriers to the Adoption of Alternatives. Some provisions of the commodity programs are widely believed to be impediments to the adoption of alternative pest-control methods that reduce dramatically or eliminate the farmer's reliance on toxic pesticides. At a minimum, these disincentives should be identified and eliminated from the commodity programs so that farmers can have the flexibility needed to respond to consumer concern about pesticide residues.

Promote Development and Adoption of Alternatives. The removal of disincentives will be ineffective if farmers in each local production region do not have access to proven alternative pest-control technologies. An immediate and expanded research and extension program is needed if alternative technologies are to be on line in the near future. If federal research and extension efforts remain at existing low levels, adoption of new methods will be so slow that farmers' will be unable to meet consumer demand for safer food products.

Improve Market Responsiveness. The ability of food markets to respond to consumer concerns about pesticide residues is limited by a number of institutional and policy factors. Currently no market mechanisms exist to translate consumer concerns about food safety into signals to which farmers can respond. In particular, current food grading standards do not account for the benefits to consumers of reduced pesticide-use or production without pesticides altogether. Since grading standards make possible trading and pricing in modern food markets, they can either impede or facilitate market responsiveness to food-safety concerns depending on how they are designed. Current grading systems need to be reexamined, redesigned to achieve food-safety onjectives, and backed up with certification programs that ensure the consumer that claims about food safety are valid.

If these measures are adopted both consumers and farmers will be able to achieve important objectives. Farmers' domestic markets will be protected against erosion from losses in consumer confidence about the safety of the food supply, and consumers will be able to purchase food that they know is safe. And profitability studies suggest that alternative methods have the potential to reduce input costs to levels that more than compensate for any reduction in yields that result from reduction in the use of toxic pesticide.

Measures that improve food-safety also have the potential to enhance the competitive position of U.S. farmers in world markets. While the Food Security Act of 1985 took steps to make U.S farm commodities available at more competitive prices, little attention was given to prospects for differentiating U.S. agricultural products on the basis of their superior quality. One promising way to supply superior quality food is to supply safer food. Increasing concern about food safety in other nations may be waiting to be translated into unique competitive advantages for U.S. farmers if they can take leadership in supplying world markets with food that has superior safety qualities. Given the dependence of our competitors on toxic pesticides, a safer U.S. food supply could yield benefits to farmers in the form of increased demand and premium prices in world markets.

CONCLUSION

In conclusion, Mr. Chairman, while it is true that consumers have benefitted from some of the provisions of the Food Security Act of 1985, our examples of dairy, sugar and food-safety policies indicate that much more needs to be done to make food and agricultural policies more effective and more equitable.

And we will have to continue to do more if we are to develop a national consensus on food and agricultural policy issues and restore widespread confidence in the safety of the food supply. As consumer concerns increase and farm incomes improve, the time is ripe for creating a more balanced policymaking process: one in which the huge consumer stake in food policy is fully recognized; one in which the consumer interest is an integral component; and most importantly, one that benefits farmers and consumers alike. We look forward to working with the committee to create such a balance. Thank you.

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Statement of Ralph G. Grossi
President
American Farmland Trust

Committee on Agriculture
U. S. House of Representatives

July 13, 1989

Mr. Chairman, my name is Ralph Grossi. I am President of the American Farmland Trust, a nonprofit organization dedicated to preservation of the nation's agricultural resources. I am also a partner in a family farming operation that produces custom beef and small grains in Marin County, California.

I want to thank you for inviting me to testify today at these first hearings on the issues related to formulation of the next farm bill. Mr. Chairman, the American Farmland Trust appreciates your continued strong interest in the soil conservation programs, and the support of other members of the Committee as well.

The American Farmland Trust is looking forward to working with you on the next revision of farm program legislation. To that end, I would like to make you aware of two major current research projects at AFT. First, we are conducting in-person interviews with approximately 600 farmers to identify their views about proposed new directions in farm policy. Second, we are conducting "brainstorming" workshops around the nation. These workshops allow us to hear what farmers, soil conservation professionals, state agencies, universities and local groups think should be changed in conservation policy. We hope to report to you about both projects later this year.

My testimony today will address the need for changes in operation of this nation's conservation programs and specifically programs that protect our agricultural resources for future use.

Gains made under the provisions of the 1985 Food Security Act must be protected. Protecting the gains made in 1985 may mean an extension of authorities -- such as land retirement under the Conservation Reserve Program -- and will definitely require close coordination between provisions of new commodity programs and operation of important conservation measures.

For the land that will remain in production, compliance with accepted conservation practices will be very important. Standards of compliance should be uniform but flexibility for local offices to make professional judgments is important.

With respect to the Conservation Reserve Program specifically, more than 30 million acres of highly erodible and environmentally sensitive land have been enrolled to date. By year's end, perhaps an additional 5 to 7 million acres will be enrolled, exceeding by far the previous maximum enrollment in a land conservation program. Determining the future use of that land should be a very high priority for all of us. The public investment in the program may total more than $20 billion over the term of the program -- a very substantial commitment to both conservation and the nation's future. The return to the public for that investment should be carefully protected.

Enrolling this land in the Conservation Reserve has been a difficult process. However, the task of determining suitable economic use for that land after expiration of the 10 year contracts will likely prove to be a more complex task. We cannot afford to put off until tomorrow -- in this case, tomorrow may mean 1995 -- what we should do today. The Committee should strongly urge the U.S. Department of Agriculture to prepare a study describing the potential for economic use of land enrolled in the Conservation Reserve Program in the post-enrollment period that begins in 1996. We suggest that the study focus on realistic economic uses that maintain the soil savings achieved under the program. The study should consider both the effects of encouraging production of crops with industrial potential and the effects of developing new, non-agricultural sources of income such as recreational use. Rural development grants or loans could be used for such purposes.

Some crop acreage now in the Conservation Reserve should be permanently retired from intensive row crop production. Certain land should be permanently idled through use of voluntary, incentive-based programs. Some of this highly erodible and environmentally sensitive land was drawn into production by incentives that proved to be unrealistically high. For example, some estimates would classify as "highly erodible" 20 percent of the land brought into production during the period 1979-82. A return of such land to intensive row crop production will likely result in long-term damage to the land and to adjacent areas that cannot be justified by the short term production gains.

The best, most productive land under cultivation should be kept in current agricultural use -- again, using voluntary, incentive-based programs. Much of AFT's work is directed toward maintaining a productive agricultural base throughout diverse areas of the United States. In many areas, development pressures can cause unwise growth patterns that needlessly convert agricultural lands to non-agricultural uses. Some of these lands are among the nation's most productive and their conversion to non-agricultural use is a permanent loss for future generations. For example, in California, more than 140,000 acres of farmland become part of sprawling suburbia each year. Similar patterns can be identified in Florida, Pennsylvania, and other states. Moreover, certain areas are under extreme development pressure -- these areas include particularly unique and agriculturally valuable places such as the cherry growing region in Michigan near Grand Traverse Bay, or the valleys of the Connecticut and Hudson rivers.

In addition, some of this converted land is ecologically better suited for the production of food and fiber than other land remaining in production. Then, over time, the nation becomes more dependent on costly production inputs -- fertilizer, irrigation water, and so forth -- to maintain or increase output. Sensible evaluations of long-term need and production patterns can avoid problems in the future. To this end, APT would endorse efforts to identify the national trends in farmland use and conversion. Provisions of the Farmland Protection Policy Act must be better administered and, in some areas, strengthened. From all indications, the nation continues to lose its best farmland at an unacceptable and alarming rate. Some of this loss is attributable to poor economic conditions facing farmers and ranchers. However, additional losses could be averted. The U.S. Department of Agriculture has poorly and unenthusiastically administered the 1981 Act, as amended. This lackluster performance may well be causing federal participation in the needless and irrevocable loss of prime agricultural land. To improve administration of the Act, we recommend the following changes that will establish new safeguards against unwarranted conversion of prime agricultural lands to non-agricultural uses.

1. Emphasize the importance of U.S. farmland. AFT recommends the addition of a new Congressional finding to the Farmland Protection Policy Act indicating that the conversion of prime and important agricultural lands to non-agricultural purposes can lead to increased soil erosion and agricultural production costs.

2. Assign responsibility for enforcing the FPPA. AFT recommends that Congress direct the Secretary of Agriculture to appoint a Special Assistant to carry out the purposes of the Farmland Protection Policy Act and require federal agencies to designate an officer responsible for insuring compliance with the Act.

3. Revise procedures for reviewing federal program activities that may directly or indirectly convert farmland to permanent non-agricultural use. Federal officials and officials of affected state and local governments should

have an opportunity to review a federal program activity before any federal funds are committed to that activity. The review should determine the effect of the proposed activity on agricultural lands and identify alternatives that would avoid conversion of the lands to non-agricultural uses.

4. Obtain current information on the extent of loss of agricultural lands. The Secretary of Agriculture should be directed to submit to Congress a report detailing current information on the extent and rate of conversion of farmland to non-agricultural use. The information should be comparable to the information contained in the 1981 National Agricultural Lands Study, with regional detail available. Currently, data are incomplete and anecdotal but suggest that the nation still experiences disturbingly large losses of prime agricultural land to non-agricultural use -- losses that were seen a decade ago.

5. Make all federal agencies aware of the consequences of needless conversion of farmland to non-farm use. The Farmland Protection Policy Act should be amended to bring certain land acquisitions by the Department of Defense under the review provisions of the Act. Under current provisions of the Act, DOD is exempt from provisions requiring federal agencies to consider alternatives to land condemnation before proceeding with projects that convert farmland to

non-agricultural purposes. However, many actions taken by DOD are identical to actions taken by civilian agencies and, accordingly, should be subject to the same determinations.

6. Allow local officials to negotiate equally with federal officials. Where a local policy to protect farmland exists, the chief executive officer of that locality should be allowed to bring action in a Federal district court to enforce provisions of the Farmland Protection Policy Act. Current law enables only a Governor of a state to bring suit. No such suits have been filed -- in part because the possibility of a suit spurs serious negotiations to avoid litigation.

Conclusion

Mr. Chairman, today's hearing will provide a valuable basis for future Committee consideration of needed amendments to the Food Security Act of 1985. Thank you again for the opportunity to present the views of American Farmland Trust, and we look forward to working with you and other Members of the Committee.

Statement

of

Maureen Kuwano Hinkle
Director
Agricultural Policy

National Audubon Society

Mr. Chairman, and members of the Committee, the National Audubon Society appreciates the opportunity to testify at this series of hearings on the formulation of the 1990 Farm Bill. The enactment of the Conservation Title of the Food Security Act of 1985 was a culmination of a long and sustained effort on the part of Audubon, from our grassroots through the commitment of resources at the national level. Among our half a million members and our Board of Directors, we have farmers and volunteers trained in the careful observation and conservation of our environment. In addition, National Audubon and some of our chapters own, operate or lease farmland. We look forward to building upon the 1985 conservation initiatives in the upcoming 1990 legislation.

Your invitation requested an assessment of the effectiveness of policies enacted in the 1985 and subsequent legislation. The National Audubon Society is especially pleased that the Conservation Reserve Program you established in 1985 has enrolled 30,592,672 acres in 10-year contracts for grass or trees. The enrollment of acres from eight sign-up periods between February 1986 and March 1989 exceeded the record 28.6 million acres of the Soil Bank in 1960. The erosion reduction has been estimated to be over 609 million tons of soil erosion per year. Texas is the leader in erosion reduction with 131 million tons per year on 3.7 million acres, followed by Colorado with 45 million tons on 1.8 million acres, and Kansas with 41 million tons per year on 2.5 million acres. The CRP has also dramatically improved wildlife habitat and has helped to stabilize farm land values.

Other witnesses will address wetlands conservation, easements, swampbuster and conservation compliance provisions of the 1985 Act. I would like to explore the kinds of incentives that might encourage additional acreage into the CRP and future use of CRP lands after contracts expire. I will conclude with the issue of ground water which was not addressed in 1985, but has emerged as a major rural issue today.

Economic use - grass. The recent opening up of CRP lands for emergency haying and grazing demonstrates the value of economic use of CRP lands under certain conditions. With proper management to ensure the integrity of the established grass, CRP lands can be opened up for grazing as early as the fourth year, but normally by the 6th or 7th year. Allowing economic use under such conditions, could encourage CRP lands to remain in grass without compromising wildlife benefits and soil erosion. Audubon and other conservation groups would support allowing economic use in return for reduced rental payments or permanent easements on such lands. Keeping highly erodible lands out of continuous row-cropping virtually eliminates most excess soil erosion. Congress would thereby protect its investment in the CRP, prevent unnecessary commodity program payments, and protect the resource from unnecessary degradation.

Economic use - trees. Although economic use of CRP acres put into trees is implicitly allowed after the contracts expire more incentives are needed. Trees planted on 91 pine plantations in Georgia, Mississippi and South Carolina are still growing on 89 percent of the original Soil Bank acreage. These plantations planted between 1956 and 1961 now produce pulpwood, small sawlogs and other forest products. (Alig, Mills and Shackelford, 1980) Such a good investment deserves incentives such as those proposed by Senators Fowler, Leahy, Lugar and Boschwitz to provide for 15 year contracts for northern hardwoods.

In addition, a combination of cropping, haying and trees would provide multiple benefits for CRP lands. Depending on the region, winter wheat, corn or soybeans can be profitably planted between rows of trees. When crops are harvested, fescue and other forage can be planted. Erosion reduction can be as great as terracing and grass strips, and economic returns over the long term are predictably high. (Kurtz et al., Garrett and Kurtz 1988)

CRP incentives. As Congress examines incentives to expand the CRP, options should include tree crops such as black walnut and apples. Another emphasis, proposed in S. 970 and S. 1063, is development and preservation of shelterbelts, windbreaks, corridors for wetlands and wildlife, permanently vegetated stream borders, filter strips, and contoured grass strips regardless of erosion classification. Easements for such portions of fields should be in perpetuity for trees, forbs and grass as proposed in S. 970.

Another way to protect conservation reserve lands would be to require continued compliance with erosion conservation management as a prerequisite to reentry into commodity programs. This would prevent producers from abandoning conservation plans when prices are high.

Ground water

Although the 1985 Farm Bill brought more consistency between conservation and commodity programs, the current system continues to reward farmers on the basis of yield frozen at the 1985 level and the acreage of program crops planted. This 50-year old policy emphasizes production regardless of environmental consequences such as contamination of ground and surface waters.

Importance of ground water: Ground water accounts for 95 percent of U.S. freshwater reserves. While much of this resource is untapped, ground water currently accounts for about 50 percent of the drinking water consumed and is the major source of drinking water for 97 percent of the rural population. Ground water use is also increasing at twice the rate of surface water use, sometimes leading to diminished aquifers. Almost all of the overdrafts have occurred in agricultural areas, therefore increasing the importance of ground water protection in our rural communities.

Increase in herbicides: Herbicides are worrisome as contaminants because of the intensity of their use, their solubility in water, persistence and possible chronic adverse health effects. In 1949 herbicides were used on 23 million acres, rising to 120 million acres in 1965, and 250 million acres in 1977. (See chart 1) High pesticide use has increased on certain crops: 98 percent of rice is treated with herbicides, 97 percent of cotton, 95 percent of corn, and 93 percent of both soybeans and peanut acreages. (See chart 2) In addition, crops that require high pesticide applications increased in the 1970s. Acreages of harvested wheat rose from 43.5 million in 1970 to 78 million in 1982. Soybeans rose from 43.5 million acres in 1971 to 71.5 million acres in 1982. Acreages of corn planted rose from 74.1 million in 1971 to 81.8 million in 1982. (See chart 3) Chemicals serve as a kind of insurance for farmers struggling with short-term cash flow problems. It was only a matter of time before intensive cropping practices resulted in ground water contamination.

Pesticides in ground water: Recent monitoring has revealed that ground water is becoming more contaminated by pesticides. In 1984, EPA reported 12 different pesticides in 18 states due to agricultural practices. In 1986, EPA reported 17 pesticides in the ground water of 23 states. In 1988, 46 pesticides have been detected and confirmed in the ground water of 26 states due to agricultural use.

More cases are inevitable unless programs are put in place now. Many pesticides do not travel as fast as water. If the compound does not break down, it may take ten years to get to ground water, but once it reaches ground water residues will increase as more continue to be applied.

The mechanism for transport of agricultural chemicals to ground water is now becoming clear. Therefore, the National Audubon Society believes that policies to prevent contamination of ground water are needed immediately in view of the body of information now emerging on vertical and lateral water and chemical transport and retention. A significant fraction of pesticides applied to soil can move rapidly downward, reaching depths up to 10 times greater than previously believed. (Jury, Elabd, Clendening and Resketo, 1985) This gravitational transport even occurs in clay. In Brookings, South Dakota scientists have constructed nine-foot deep culverts to instrument the vertical movement of agricultural chemicals and water. Flowing through cracks, worm holes and fissures, nitrates and pesticides have been detected 10-15 feet below the surface just two days after application. (Bender, 1989) Investigations in Minnesota, Ohio, Indiana and Arizona also indicate that macropores, especially large worm holes, are important conduits for rapidly infiltrating water and soluble pesticides. After the fifth year of no-till farming in the Corn Belt, worm holes increase from 2% to 12% and continue through year 21, the most recent year of such long term monitoring. It does no good to apply a wormicide or plug the holes, because large channels remain for years after disuse, are vertical straight to sedimentary bedrock, and the number of holes increase with depth. (Edwards, Norton and Redmond, 1988)

Incentives to reduce ground water contamination. Farmers would like to move out of intensive row cropping, but need positive incentives to manage less intensively. National Audubon and others are investigating ways to reverse current incentives.

Not all cropland is vulnerable to ground water contamination, but in a vulnerable watershed, it may be necessary to develop resource management plans for each farm. Building upon programs for erosion control, management plans could expand to a system of practices that will reduce the delivery of identified pollutants to either surface or ground water. Plans would include biological control, best management plans, or integrated pest management (IPM) which limit application to the amount of agricultural chemicals to those necessary for crop growth or the suppression of disease or pest problems.

Another response might be base flexibility which has been proposed to ease the distortion of current programs and reduce government outlays. Farmers would be able to increase profits by moving away from surplus crops and into alternative crops in higher demand, such as oats. As commodity production is reduced, the need for costly annual set asides is relaxed. Land would be substituted for set-asides, thereby reducing the temptation to apply heavier applications of chemicals to acres remaining in production.

Of cropland that is highly vulnerable to ground water contamination, it has been estimated that between 40 and 65 million acres might be eligible for base flexibility. Such cropland could be rotated with stripcrops of legume and legume-grass mixture and hay without losing base acre credits. By moving from continuous single cropping to certain kinds of rotations, risk of ground water contamination could be reduced. Such rotations would need to improve soils, break up pest cycles, and reduce erosion potential. Base flexibility could be developed to resolve a part of the solution of ground water problems.

The flexible base acres concept would trade outlays for an equivalent percent cut in acreage payments. Another approach that would protect the resource base as well as reduce federal outlays would base payments on the average farm operation through a lean year for a commodity in the region. A more complicated method would be to calculate payments on values of a typical proper and complete crop rotation in the region or watershed. (Davidson, 1989)

In addition, USDA must elevate as a high priority, research and development of a wider range of options farmers can use to reduce pollutants. Plans need to be developed that target reduction of pollutants. For example, integrated pest management and biological control have been paid far too little attention in recent decades, but certainly deserve more funding today. The workload on the Soil Conservation Service and the Extension Service would increase, but programs can be targeted to priority watersheds. Farmers in targeted watersheds should be insulated from penalties for reduced yields or acreage removed from crop production for purpoes of water protection They should remain eligible for such credits as flexible base, or payments based on the average good production yields for the watershed.

Regulatory and state action. Without a viable program of ground water protection, regulation will become a necessary inevitability. Even now, agriculture which has traditionally been exempt from pollutant discharge permitting is being regulated as a polluting industry. In Florida, if a discharge from an agricultural field, ditch or canal threatens to violate ground water standards "at the boundary of the zone of discharge, or otherwise threatens to impair the designated use of contiguous waters," the owner must obtain a ground water permit defining the zone of discharge and implementing a ground water monitoring plan. (Aller, 1989) More and more states will assume such regulatory powers in their efforts to protect the the integrity of their ground water. We cannot wait for ten years to obtain and evaluate data on the extent and significance of ground water contamination by pesticides and fertilizers. Clean up and remedial action are extremely costly, and seldom effective. Although regulatory action and state legislation are proceeding, farm legislation can do much to help farmers protect their water sources.

Conclusion. We urge this committee to develop a comprehensive ground water title in the 1990 Farm Bill to help farmers reverse the trend of contamination of ground water from agricultural chemicals.

The National Audubon Society looks forward to working with this committee in developing farm policies for the 1990s that will increase profitability of farming, bring back diversity to the rural landscape, and improve the health of the rural economy and rural residents.

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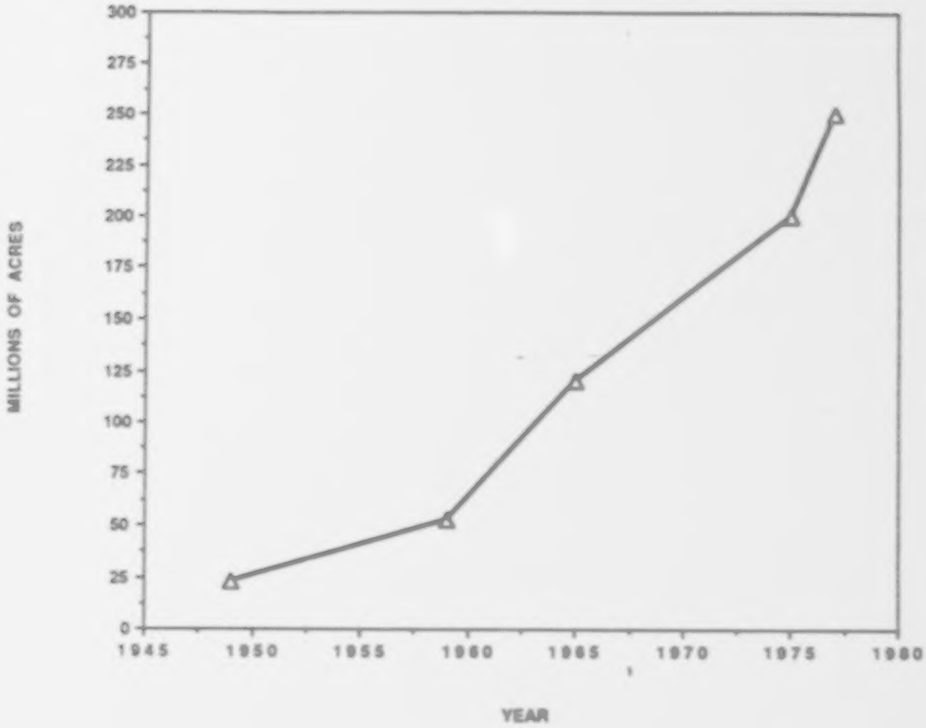
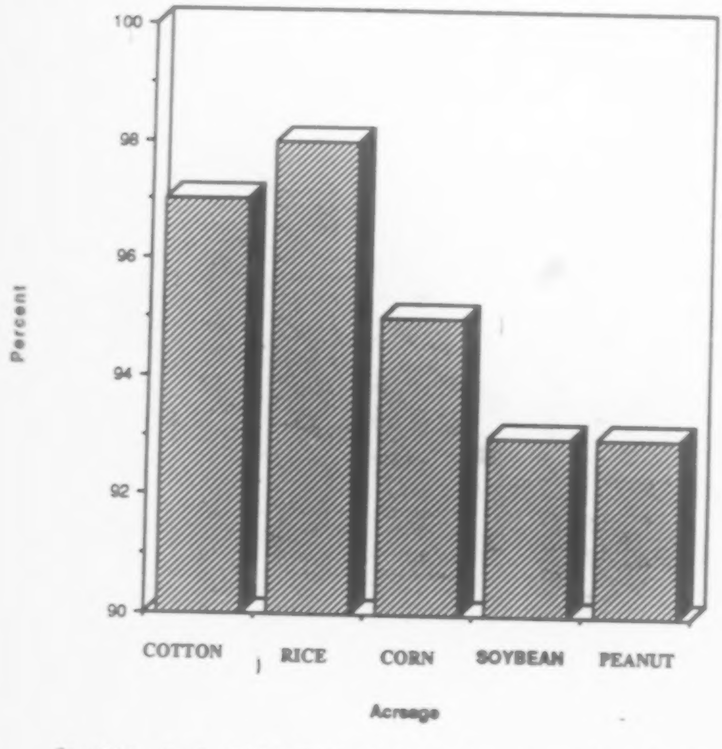
USE OF HERBICIDES IN THE UNITED STATES



Source: McWhorter, C.G. 1978. Disciplinary Challenges: Weed Science in Symposium on Development of Optimum Crop Production Systems for the Mid-South, University of Arkansas, March 7-9, 1978, Special Report 67.

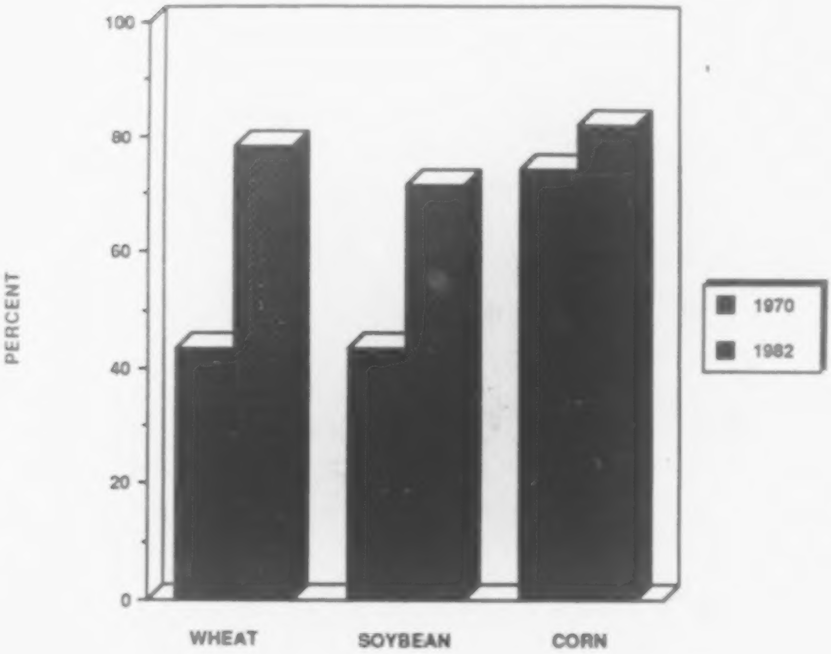
#2

PERCENT OF CROPS TREATED WITH HERBICIDES



Source: U. S. Department of Agriculture. 1988. 1988 Agricultural Chartbook. Agriculture Handbook No. 673

INCREASE IN ACREAGES OF HIGH USE PESTICIDE CROPS



Source: U.S. Department of Agriculture. 1983. Outlook and Situation issue IOS-2.

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STATEMENT OF
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WASHINGTON, D.C.
Before the Committee On Agriculture
U.S. House of Representatives
July 13, 1989
Washington, D.C.

Mr. Chairman, distinguished Members of the Committee:

Thank you for the opportunity to testify today on resource and environmental issues in federal agricultural policy.

Your deliberations on the next omnibus farm bill begin in the midst of one of those comparatively rare periods when almost every corner of this nation's remarkably diverse agricultural landscape offers a vista that is both common and new.

It is as visible from an expanse of wheat on the American Plains as it is from a sprawling vineyard or a vast tract of lettuce in California. It is as evident from an onion field in Michigan, or from a towering stand of corn in the heartland, as it is from a cotton field in west Texas.

From each of these places and countless others across the country, what can be seen on the horizon is strikingly similar: what could well be the beginning of the end of the chemical era of American agriculture.

It will not be the end in the literal sense that pesticides and synthetic fertilizers will no longer be used in agriculture. Rather, post-War trends in the amount of agrichemicals applied and the area treated, having reached an apex, will halt, then begin a steady decline.

The more profound sense in which this era seems to be coming to a close has to do with the preeminence of agrichemicals as the means of pest control and plant and animal nutrition. In the vernacular of stage and screen, agrichemicals are changing from a leading role to a supporting role. Gradually, but steadily, they seem destined to be supplanted by an array of nonchemical techniques and management systems, including biological controls and biotechnology.

This turnabout in one of the salient trends of modern agriculture will not occur as the result of direct regulation of farmers (though we are already seeing such regulation, and support for it among farmers themselves[1]). Nor will it arise from the wholesale banning of agricultural chemicals (though we face the prospect of government bans or voluntary withdrawals of more pesticides from the market).

The main impetus will be actions farmers take voluntarily to reduce chemical use, in pursuit of more practical, profitable, and environmentally sound farming practices.

Changes in government policy, and new priorities for public research and technical assistance, are needed to give shape and direction to this development. But it is the inventiveness and resourcefulness of farmers that will drive this change--that much is already evident. And given the proper economic environment and governmental support, farmers will reap substantial economic benefits.[2]

In fact, if economic benefits were not obtainable, changes of the type and scale I am suggesting would be unthinkable.

Conservation and Environmental Themes for the 1990 Farm Bill

In terms of environmental impact, reduced reliance on agrichemicals is as significant and as encouraging as any in the history of U.S. agriculture. The role of public policy in this development will be the underlying theme of many of the policy proposals that will be presented, in the months ahead, to protect the environment and natural resources through improvements in agricultural policy. It will not be the only subject on the table, however.

Of equal importance is the related issue of the performance of programs and policies authorized by the Conservation Title (XII) of the Food Security Act of 1985. Other topics of concern include the role of farm programs in wildlife conservation; food safety; and the stewardship role of credit institutions which receive direct or indirect government assistance.

I want to note that many of these topics are likely to be addressed in a forthcoming report on "alternative agriculture" by the National Research Council's Board on Agriculture. The report is scheduled for release this fall, and should provide a solid foundation for discussing the environmental and economic performance of U.S. agriculture.

Again, I thank the Committee on Agriculture for the opportunity to testify on these issues on behalf of the Center for Resource Economics. The Center, a nonprofit environmental research and publishing organization based here in Washington, recently established a program of research, policy analysis, and communication, called "Toward A New American Agriculture". It focuses on opportunities to improve the economic and environmental performance of U.S. agriculture through policy reform. The ideas and issues presented in my testimony are being analyzed in detail by the project team.

Biases About Agricultural Chemicals, Environment, and Health

The topic of agricultural chemical use and safety has been especially controversial, not to say incendiary, these past few months. It is unfortunate, but true, that discussions of the issue have become highly polarized to a degree not seen for some time. Until this atmosphere passes, the air all of us breathe will be laced with stereotypes, accusations, and anger.

Given these circumstances, and being an environmentalist, I feel compelled to summarize my personal perspective--my biases, if you will--on five common themes in the debate about agrichemicals. Obviously, these biases affect my assessment of agriculture's environmental problems and of possible solutions.

Theme #1: All agricultural chemicals are bad and equally dangerous. I don't think so. If I did, I would not use pesticides and synthetic fertilizers in my garden. Clearly, some chemicals are more dangerous than others, or pose different types of risk. It is encouraging that each new generation of pesticides appears more benign than the last. What is discouraging is that this progress is charted against low or nonexistent safety standards in place at the start of the chemical era. More discouraging still, over time each generation of pesticides seems eventually to cause problems unforseen by the science that originally deemed the compounds safe and efficacious.

Theme #2: Farmers are profligate in their use of fertilizers and pesticides. Again, I don't think so. From my experience, farmers as a group seem to possess a degree of environmental awareness and stewardship that the rest of society would do well to emulate. The problem is that the business and culture of modern agriculture are thoroughly skewed toward the use of pesticides and synthetic fertilizers. The extent and rates of chemical application are such that normal use now borders on overuse in many circumstances. This is not an indictment of farmers' skills, motives, or morality; it is similar to observing that Americans buy too many gas guzzlers and drive them too much.

Simply put, farmers can do with less chemicals--and I am convinced that representatives of agrichemical interests are now much more sensitive about this subject than farmers are.[3] Overuse is, by definition, a structural feature of agrichemical usage patterns in the case of commodities that are chronically in surplus (a subject treated in more detail below). My working assumption is that important opportunities exist for substantially reducing the use of both pesticides and fertilizers, while maintaining acceptable levels of production and net farm income. Particularly in the case of pesticides, however, information on patterns of use is scandalously incomplete and outdated, considering the importance and controversy attached to the issue for past quarter century.[4]

Theme #3: Agrichemical pollution and contamination pose an emergency for public health. On the whole, that is not the case. On the whole, agrichemicals do pose worrisome, chronic, and avoidable risks to the health of farmers and the public.[5] These risks can and should be reduced significantly, even though health risks per se cannot be eliminated from agricultural production. In fact, reducing the risks posed by fertilizers and pesticides may entail new risks that must be carefully weighed. It is beyond dispute that both farmers and the general public are very concerned about exposure to agrichemicals.[6]

Theme #4: The American food supply is unsafe. By global standards, our food supply is quite safe, even if our eating habits are not. The point is that the food supply could be safer. A risk free food supply is no more attainable than risk free food production. But risks do exist, and in many cases it is worth examining how they can be reduced or eliminated.

Theme #5: Organic farming is the only solution to pesticide and fertilizer problems. Farming without the use of any synthetic pesticides or fertilizers is one solution along a continuum of alternative solutions. It is being practiced successfully by a growing number of commercial farmers, who produce a wide variety of crops. But it is not the only worthwhile goal, and it may not be the most important one. Generally speaking, conventional farming practice can and, I believe, will move in the direction of organic agriculture in terms of chemical use, for both economic and environmental reasons. The risks associated with the use of agrichemicals, however, can be substantially reduced well short of the point at which U.S. food production will be entirely or even significantly organic.

Source Reduction: Agrichemical Management for the 1990s

If agricultural chemicals will continue to figure importantly in farming, then in what sense is the chemical era coming to an end?

While synthetic fertilizers and pesticides will continue to be used, it is clear that their roles in agricultural production can and likely will become less and less important over the next decade. This "source reduction" phase of agricultural chemical technology is already in evidence. It will be manifested primarily as substantial decreases in the physical amount of fertilizers and pesticides used on farms.

The reductions will be achieved in various ways. Efficiency of fertilizer use, for example, will improve through more careful timing and placement, the technology and management know-how for which already exist. Weed, disease, and insect control and plant nutrition will be enhanced by more diversified crop rotations. Some reductions in the amount of pesticides used have already occurred with the introduction of compounds which are applied at rates much lower than those of the pesticides they have replaced; but use of these compounds will not be the most important or enduring source of reduced pesticide use. The tools and principles of integrated pest management (IPM), refined to place more emphasis on environmental as well as economic goals, and adapted to a wider range of crops, pests, and locations, will begin to fulfill its enormous potential to reduce pesticide use.

It is by no means unreasonable to anticipate that during the source reduction phase, usage of pesticides can be cost-effectively reduced by 50 percent or more on a very broad range of crops.[7] While estimates for potential fertilizer reductions are not as readily available, a recommendation by The National Coalition for Agricultural Safety and Health to reduce nitrogen fertilizer use on cereal grains by 50 percent suggests the scale of reduction being contemplated within the agricultural community. Naturally, the potential for both pesticide and fertilizer reduction will vary from commodity to commodity and region to region.[8]

Reductions in chemical use will not necessarily result in a commensurate reduction in the risks particular chemicals pose to the environment or human health. The type of chemical, the manner and location of its use, are among the factors which determine the relationship between reduced chemical usage and reduced chemical risk. Consider the example of pesticide residues in food. The National Research Council assessed the "worst case" oncogenic risk (the risk of benign or malignant tumors) posed by food residues of 28 pesticides, and found that 80 percent of that risk was associated with the residues of only 10 compounds in 15 foods.[9] Reducing or eliminating the use of some chemicals could therefore have a disproportionately large--or small--impact on oncogenic risk from pesticide residues in food. The same phenomenon may well be observed for other types of risk, such as the risk of groundwater contamination from chemicals. Clearly, this suggests a need for factoring risk reduction, not just reduction of the volume of agrichemicals, into thinking about source reduction goals and policies.

Moreover, reducing chemical use may increase other environmental risks. Increased use of fossil fuels and accelerated erosion during field operations may result if mechanical cultivation is substituted for herbicides. And in some instances, maintaining or actually increasing the use of certain chemicals may be required to deal with certain conservation problems (such as use of herbicides in some summer fallow areas to enhance erosion control). Overall, however, well-targeted agrichemical source reductions have the potential to provide significant economic and environmental benefits.

In the longer term, probably sometime after the turn of the century, the source reduction phase of agricultural chemical management will give way to more a more sophisticated, biological era of pest control and plant and animal nutrition, featuring an increasingly greater role for biological controls and biotechnology. With appropriate attention to environmental and health concerns, this era can bring further gains for protection of ecosystems and human health, but it will not eliminate risk.

Catalysts For Source Reduction

As a general rule, preventing pollution is more desirable and efficient than dealing with it after the fact. Reducing chemical contamination before it occurs, by reducing the amount of contaminants in production processes, makes eminent sense in agriculture as in other industries--and the potential contribution of these preventative approaches has scarcely been scratched for the economy as a whole.[10]

Why is it that large numbers of farmers, in particular, have not been motivated to consider reduced use of agricultural chemicals until now?

A number of circumstances have coincided rather recently to move American agriculture into the "source reduction" era of agrichemical management. These circumstances will affect the means and pace of source reduction.

1. **Farmers' concerns about ground water contamination.** Concern is evident in farm communities across the country about ground water pollution caused by routine use of agricultural chemicals. The term "concern" probably understates this development. It represents a profound shift in a prevailing attitude of post-war farming: for the first time, a large

numbers of farmers seem to be questioning not only the safety of routine uses of agrichemicals, but also the reliability of their main source of information on agrichemical use--the agrichemical industry itself.

2. **Farmers' exploration of practical alternatives.** For economic and environmental reasons, farmers across the country are experimenting with a continuum of alternative farming practices which have in common reduced use of agricultural chemicals. Indeed, some commercial-scale farmers are eliminating the use of chemicals for some crops.[11] In some instances the motive is to reduce or shift input costs. In other cases, farmers may be coping with weed or insect resistance problems, well water contamination, herbicide carryover, or other problems. Still other farmers may be producing crop or livestock products for the burgeoning market for organic goods, or may be cutting back or eliminating agrichemicals out of concern for possible impacts on wildlife, water, soil--or because of concerns about their health or their family's. The alternatives being practiced are remarkably diverse, and some are more comprehensively "sustainable" than others. But it is the direction of change, at this stage, that is more significant (and predictable) than the end point. Perhaps it goes without saying that these activities are almost exclusively voluntary. The challenge is to promote broader adoption.

3. **Growing awareness of the environmental impacts of farm programs.** This awareness is evident among researchers, policymakers, farmers and environmentalists; and it was one of the motivations behind the development and enactment of the Conservation Reserve Program and other provisions of Conservation Title of the 1985 farm bill to conserve soil and wetlands resources. A recent report by Resources for the Future is representative of an already large and growing body of literature on the subject.[12] The authors conclude, for example, that commodity price and income support programs indirectly encourage

soil erosion and agricultural chemical use in various ways.

The coincidence of (1) substantial and chronic excess capacity for most commodity program crops with (2) high farm program costs and (3) environmental risks posed by prevailing methods of producing these crops has motivated interest in ways to modify commodity programs to enhance environmental protection. Reduced use of agrichemicals is frequently mentioned as a goal for such reforms. (This issue is discussed below.)

4. **Regulation of agrichemical use on farms--or the threat of it.** A number of state legislatures, which tend to be dominated by rural interests, have enacted regulatory programs for pesticides or fertilizers to prevent ground water contamination; more may do so soon. As noted earlier, polls of farmers and rural residents in a number of states reveal surprising support for such regulations.

Farmers and farm organizations have begun to respond by exploring alternative farm practices or policies that have the potential to reduce the use of problem chemicals--and the need for regulation.

5. **A shift of attitudes within the public agricultural research and extension establishment.** A small but growing number of agricultural researchers in the social and natural sciences are exploring the agronomic, environmental, and economic aspects of alternative farming practices.[13] The same is true of the extension community. This is a vital but often overlooked development that is only just beginning to affect farmers. For decades, the "miracles" associated with fertilizer and pesticide use simply preempted sustained examination of alternative technologies, particularly natural or biological methods of pest control and plant nutrition.

6. **Public concerns about pesticide risks.** These concerns have complex effects on agricultural chemical use through the pesticide regulation and registration process.[14] Clearly, concerns about pesticides have reduced potential usage of

pesticides by restricting federal registrations;[15] and "50-some [registered] pesticides" [of 50,000 registered] have been "suspended, canceled, or restricted," according to The Conservation Foundation.[16] Whether registrations have been limited adequately given public concerns is arguable, though my own view is that they have not. That the number and amount of pesticides used in agriculture grew sharply over the past few decades (through the early 1980s), notwithstanding regulation, is of course indisputable.

It is also apparent that consumer concerns have encouraged some farmers to produce and market organic products (#2 above), while other farmers appear to have been motivated to abandon the use of specific chemicals of regulatory concern to the Environmental Protection Agency.

Areas of Policy Interest

The Center's research and analysis is embraces on four areas.

(1) Performance of the 1985 Conservation Title (XII);
(2) Source reduction policy strategies for agrichemicals;
(3) Impact of farm programs and policies on wildlife;
(4) Policy strategies to encourage marketing of food products produced with reduced or no agrichemicals.

The first three areas are project priorities. Research and analysis will encompass both economic and environmental impacts of current and prospective policies.

Our work has been underway only a short while. What follows is a sketch of some of the policy issues we are examining.

Performance of Title XII

As I've stated before the Conservation and Credit Subcommittee of this Committee on several occasions, I consider the Conservation Title one of the major environmental success stories of the 1980s. Quite apart from its direct accomplishments out on the land, which are impressive, it opened important new avenues for integrating conservation and environmental goals with agricultural policy.

Mr. Chairman, you and many Members of this Committee had a hand in crafting that landmark legislation. You also helped set a tone, all too rare in the history of agricultural policy, that allowed farmers and environmentalists, rural representatives and urban representatives, to find so much common ground. I look forward to working with you to find more such ground in the months ahead.

Many of the critical questions about how well Title XII is working can only be answered in the field. As many of you know, the Soil and Water Conservation Society (SWCS), based in Ankeny, Iowa, is conducting a major field evaluation of Title XII. It is directed by Max Schnepf of SWCS, and is being conducted in cooperation with the Soil Conservation Service, Agricultural Stabilization and Conservation Service, and other USDA agencies, and I would like to publicly thank the entire Department for their cooperation. CRE, along with the National Association of Conservation Districts, the American Farm Bureau Federation, and the National Research Council's Board on Agriculture, are among the groups on the project's steering committee. To date, the project has visited 15 counties to evaluate the soil conservation provisions of Title XII. It has been my pleasure to go on two of these trips, one to Lynn County, Texas and one to Chouteau County, Montana.

Once released, the results of this study will form the basis for the detailed analysis our project will perform.

A comprehensive review of the literature pertaining to Title XII, prepared by Christine Ervin under contract to CRE, is now in the review stage. We will make her very useful report available to the Committee as soon as it is completed.

Conservation Reserve Program. Based on the SWCS evaluation, CRE will examine, among other things, the adequacy of erosion control on CRP ground; whether enrolled land meets the CRP erosion criteria; and the impacts on wildlife.

The central questions to be explored regarding the CRP are these:

1. Should the enrollment be expanded, by how much, and for what purposes?

Assumptions guiding our analysis:

--Production adjustment will be a continuing need in the early 1990s. Assuming the CRP is a cost effective way to adjust production, expansion will be feasible, especially if program goals are modified. Other things being equal, however, average bid rates will continue to rise, probably more rapidly than in sign-ups to date, and enrollment will climb more slowly.

--The amount of CRP expansion may well depend on the program's environmental goals. The CRE literature review suggests that environmental benefits would be enhanced by targeting the program to deal with water quality and wetlands protection problems. In both instances, substantial benefits may be obtained by enrollment of relatively small acreages of land. Defensible, workable targeting criteria remain to be developed for nationwide use, but it is clear that regional enrollment patterns would shift if water quality goals were emphasized.

--Expansion of the CRP as it is currently configured has limited potential for dealing with ground water contamination problems, except in selected situations, because contamination sources appear not to be concentrated. Changes in farming practices over extensive areas are a more appropriate approach to ground water contamination from agricultural sources.

--Particularly for ground water and surface water quality problems, long term contracts that specify locally approved best management practices, instead of simple land conversion, may be an appropriate refinement of the CRP concept. Such plans could achieve some production adjustment goals and promote such management changes as reduced chemical use and more diversified crop rotations.

--Targeting expanded enrollment to enhance wildlife conservation in wetlands and other types of habitat is likewise of interest. Targeting criteria have not yet been developed for habitat types other than wetlands (and wetlands criteria now in use must be reappraised).

--CRP expansion solely for the purpose of encouraging tree planting is not warranted given the need for utilizing the program for other environmental goals. Tree plantings should be encouraged as a CRP practice on lands that present other conservation or environmental protection opportunities.

--Bonus or lump sum payments may be required and warranted to meet environmental and production adjustment goals if the CRP expands.

2. What are the best ways to protect land enrolled in the CRP after contracts expire?

Assumptions guiding our analysis:

--A considerable portion of the land currently enrolled will be brought back into crop production if no action is taken, notwithstanding the sodbuster provisions of Title XII.

--The most enduring conservation strategy for most of this land would combine economic use with adequate erosion control and habitat protection. The feasibility of extended, conserving-use management plans combining these functions will be examined. Allowing economic use with payments, however, introduces questions of equity for cattlemen and non-participating producers.

--Long-term or permanent easements appear to be more in theory than they are likely to be to farmers, but the concept deserves careful consideration as a policy option, especially for high priority lands.

--Limited public funds dictate the need for another layer of targeting criteria to determine which of the lands currently enrolled in the CRP should be prioritized for contract extensions, conserving-use plans, easements, or other policies to extend protection of CRP acreage.

--CRP's conservation benefits may be prolonged by protecting all or a portion of the base acreage a producer has tied up in CRP contracts, without requiring it to be planted after contracts expire.

Sodbuster and Swampbuster. The central questions here have to do with the how affected lands are being identified in the field, and enforcement of penalties where violations have been alleged or proven.

I will withhold conclusions on these matters until the SWCS field evaluation results have been released. At this stage, I would merely state that questions have been raised by farmers about the criteria and procedures for defining wetlands; the drop dead penalty (total loss of benefits for any degree of infraction); and perceived inconsistencies between sodbuster and swampbuster regarding the grandfather clause that is linked to cropping history. Conservationists have questioned the rigor and adequacy of enforcement.

We anticipate examining these matters in some detail once the SWCS evaluation is completed.

Conservation Compliance. Performance of this provision will be examined in the SWCS evaluation in greater detail than any other aspect of Title XII. The evaluation team collected data on 50 conservation compliance plans at each of the 15 counties (750 plans total), and examined plans for one or more fields from each plan in detail.

Pending completion and release of the study, I would simply identify the following issues:

--How much erosion reduction is being required of farmers, what are they being required to do, when will they do it, and what will it cost them?

--How will compliance be enforced?

--Is the compliance concept of planning for specific conservation goals adaptable to other conservation or environmental problems?

If our review of sodbuster, swampbuster, and conservation compliance performance indicates that these policies are not meeting congressional intent, we anticipate the need to analyze two general issues that have repeatedly arisen in the literature pertaining to these provisions:

--Changes in administrative procedures and institutional roles, including the need to include other government agencies in policy implementation;

--The potential of alternative means for reducing the adverse impacts of commodity programs on soil and wetlands conservation, such as reduction of farm program benefits, or decoupling income support from production.

We also anticipate that our analysis will involve potential interactions between Title XII provisions and possible new policy initiatives, discussed next.

Source Reduction Policy Strategies

Our research is just getting underway in several policy areas.

Commodity Program Reforms. Excess capacity in the farm sector, on the scale experienced during most of the 1980s, constitutes an important form of "waste", in that enormous quantities of agrichemicals (as well as other inputs) have been devoted to produce crops for which there was no market but the U.S. Treasury.

In 1986, several colleagues at The Conservation Foundation and I estimated the fertilizer and pesticide use associated with "excess" production of corn and wheat, which we defined as represented by ending stocks in excess of levels that trigger acreage reduction programs under the 1985 Food Security Act. We estimated that nitrogen and phosphorus fertilizer use associated with excess production in 1986 equalled 5.9 billion pounds for corn and 1.4 billion pounds for wheat. Herbicide and insecticide use associated with this production equalled 104.5 million pounds for corn and 5.2 million pounds for wheat.[17]

EPA's 1986 decision to reregister the widely used herbicide alachlor highlights a contradiction between federal policies which arises from the concurrence of excess capacity and intensive chemical use. In essence, EPA determined that the ground water contamination and cancer risks posed by alachlor were outweighed by the chemical's benefits--most notably its yield-boosting effect on corn.[18] The Agency estimated corn production losses of between 101 and 190 million bushels (3.9 to 7.3 bushels per acre on 26 million acres) if alachlor were banned. Yet, that loss amounts to just 10 to 19 percent of excess corn capacity for 1980 through 1986, estimated at about 1,000 million bushels.[19] This excess capacity triggered corn production controls of more than 8 million acres per year and billions of dollars in farm program outlays between 1980 and 1986.

The contradiction between excess capacity and the environmental risks posed by high levels of agrichemicals use, suggests the desirability of examining ways to ameliorate both problems simultaneously. Several policy ideas may warrant consideration.

--Allow greater flexibility in commodity programs to encourage diversified rotations, including legumes, instead of continuous planting of program crops. Considerable evidence suggests that diversified rotations can have beneficial effects on soil erosion, chemical use, soil quality, and crop yields. Key questions: (1) Should farmers be allowed to make economic use of forages and nonprogram crops, and if so, what will be the impact on the cattle sector and producers of nonprogram crops?; (2) Should incentives be provided in addition to allowing economic use, in order to encourage diversification? (3) Should incentive programs be structured as variations of CRP contracts, targeted to specific areas (outlined above)?

--Link set-aside requirements to degree of specialization and/or amount of production. Larger, more specialized producers of program crops, who contribute disproportionately to excess capacity, would have a higher set-aside requirement than smaller, more diversified producers. A phase-in of the policy; allowing economic use of set-asides; and transition payments might be desirable.

--Continue freeze on program yields to discourage potentially excessive use of inputs as a way to boost program benefits.

In addition, CRE anticipates examining the environmental potential of normal crop acreage, production quota versus base acreage, and "triple-base" type options for commodity programs. CRE analyses will pay special attention to potential adverse impacts on cattlemen and producers of nonprogram crops in reviewing commodity program reforms. We also anticipate significant differences among program crops in terms of the potential for reducing agrichemical use through commodity program reforms. Some final complications are the unpredictable nature of commodity programs, which may render reforms short-lived, and the fact that many source reduction challenges arise in the production of nonprogram crops.

Research and technical assistance. Source reduction should be made a central feature of USDA research and farmer assistance programs. The forthcoming report on agricultural research from the National Research Council's Board on Agriculture may well provide a framework for such a new emphasis. USDA's current Low Input Sustainable Agriculture (LISA) program also offers promise, particularly as it involves farmers directly in setting research agendas.

Among the obvious targets of opportunity is reinvigoration of research and extension efforts on integrated pest management. With substantially increased funding, and more direct attention to the reduction of chemical use for environmental reasons, IPM may be the single best strategy for source reduction of pesticides. Another obvious target for accelerated research and extension activity is the use of nitrogen fertilizers on corn. Substantially increased research on biological controls, which will depend almost entirely on public sector resources, is also critical.

Source reduction policy goals. In addition to research and technical assistance, Congress may wish to consider establishing explicit goals for source reduction of agrichemicals. Alternatively, Congress could direct USDA to develop such goals cooperatively with EPA.

Earlier in my testimony, I made reference to estimates that pesticide use might be reduced by 50 percent or more on many crops through broad application of IPM. It was also noted that a recent report on agricultural safety and health proposed a 50 percent reduction goal for nitrogen on corn. At this stage, it is not possible to determine how reasonable the goals may be. To the extent practicable, CRE will attempt to identify workable goals and the economic and environmental impacts likely to arise in striving toward those goals.

Wildlife Conservation and Agricultural Policy. Wildlife experts have expressed concern that the CRP is not living up to its enormous potential to conserve wildlife. One problem may be that it has been difficult to develop specific wildlife conservation goals for the farm sector and for agricultural policy. With support from the National Research Council and the National Fish and Wildlife Foundation, CRE will participate in a research program to examine data and analytical methods relating wildlife to land use changes and other agricultural practices. We hope to find tools that will be useful for analyzing policies to enhance the conservation benefits of the CRP and other agricultural programs. The principal investigator for this work is Anne Kinsinger.

Food Safety. At present a minor part of the project is to explore policy ideas for improving marketing channels for farm products grown organically, or without the use of certain chemicals. Of particular interest are ways to link state certification and management plans to new grading and marketing criteria.

Mr. Chairman, thank you for this opportunity to testify.

FOOTNOTES

1. A recent survey of 463 farmers in Jackson County, Florida; Portage County, Wisconsin; Cherokee County, Iowa; and Stanislaus County, California revealed support for regulatory action at the state level to deal with ground water contamination by agrichemicals. For example, "...47 percent to 69 percent of the farmers supported a policy that 'in areas with a high risk of contaminating groundwater...the state government [would] be given the power to prohibit the use of manure and specified fertilizers and ag chemicals within a certain distance [such as 100 yards] of any water well.'" Also: "In the same four sites, 46 percent to 56 percent favored the proposal that the state government 'be able to restrict the amount and timing of application of specified fertilizers within an entire area like a watershed' in high risk areas....Also in these four sites, majorities of the interviewed farmers--53 percent to 62 percent--supported the proposal that the state government should be empowered to 'restrict the amount and timing of specified ag chemicals (herbicides, insecticides, and/or nematicides) within an entire area like a watershed' in high risk areas." Agricultural Law and Policy Institute. 1989. Agriculture and Ground Water Quality: Farmers' Perceptions in Five Diverse Sites.

A review of farmer opinion polls by state and local Wisconsin officials on the subject of soil erosion policy also revealed a receptiveness to regulatory measures. "There is much more support among farmers for soil conservation regulation than is recognized by political and farm leaders." A Committee of the Wisconsin Chapter, Soil and Water Conservation Society. 1989. "State regulation of soil erosion." Journal of Soil and Water Conservation. Vol. 44, Number 3, May-June 1989. p. 210.

2. For the most part, recent studies indicate that outright bans on individual pesticides generally would result in overall economic gains for producers and losses for consumers. Several studies have found that some farmers (mainly users of banned compounds) and some regions would be disadvantaged by regulatory bans, despite gains for farmers overall. See, for example: Barse, Joseph R., Walter Ferguson and Robert Seem. 1988. Economic Effects of Banning Soil Fumigants. U.S. Department of Agriculture. Agricultural Economic Report Number 602. A 1986 U.S. Department of Agriculture study, for example, concluded that "removing corn and soybean pesticides with alleged environmental and safety risks from the market could increase U.S. agricultural production costs, crop prices, farm incomes, and consumer expenditures, causing farmers to gain and consumers to lose." Banning of any one of the numerous chemicals analyzed in this study would produce modest overall impacts. Osteen, Craig, and Fred Kuchler. 1986. Potential Bans of Corn and Soybean Pesticides: Economic Implications for Farmers and

Consumers. U.S. Department of Agriculture. Agricultural Economic Report Number 546. Both of these studies, while useful and rigorous, are constrained by static and rigid assumptions about pesticide use and farming practices derived from the National Agricultural Pesticide Impact Assessment Program (NAPIAP). In principle, for example, integrated pest management studies suggest that the more moderate strategy of reducing pesticide use offers the possibility of environmental and safety gains without the adverse shock-effects of outright bans--the analytical scenario of choice under the pesticide-by-pesticide framework of pesticide regulation. Unfortunately, source reduction scenarios that might be derived from IPM studies have not been examined with the same methodologies employed to analyze pesticide bans.

3. The American Farm Bureau Federation's program for dealing with ground water pollution from pesticides, for example, involves among other things "....tell[ing] farmers something they don't particularly like to hear: we are probably using too much pesticide." Agrichemical representatives like to hear it even less, but the assumption underlies the Farm Bureau's "aggressive posture" in promoting integrated pest management and other economically viable approaches to environmental protection. Furthermore, "Scientists have estimated that we use 15 to 60 percent more herbicides than necessary." See: Sorensen, A. Ann. 1988. "Future of Pesticides from the Farmer's Perspective." In Pesticides: Risks, Management, Alternatives. Virginia Water Resources Research Center, Virginia Polytechnic Institute and State University (Blacksburg). p. 79.

4. Gianessi, Leonard P. Fall, 1987. "Lack of data stymies informed decisions on agricultural pesticides." Resources. No. 89. Resources for the Future.

5. A general discussion and a forceful set of recommendations on occupational health aspects of pesticide and fertilizer use are presented in: The National Coalition for Agricultural Safety and Health. Agriculture At Risk: A Report to the Nation. 1989. Institute of Agricultural Medicine and Occupational Health, University of Iowa (Iowa City).

For a more detailed discussion of one of the salient public health concerns--the occurrence of pesticides and nitrates in ground water--see: Cantor, Kenneth P., Aaron Blair, Sheila Hoar Zahm. 1987. "Health Effects of Agrichemicals in Groundwater: What Do We Know?". Environmental Epidemiology Branch, National Cancer Institute. In Agricultural Chemicals and Groundwater Protection: Emerging Management and Policy. The Freshwater Foundation, (Navarre, MN). 1988. pp. 27-42.

6. A survey of farm families in New York and Iowa, for example, revealed that exposure to chemicals is one of the major health concerns. The National Coalition for Agricultural Safety and Health. May, 1989. Agriculture At Risk: A Report to the Nation

(Agricultural Occupational and Environmental Health: Policy Strategies for the Future). pp 12-14. A 1986 Iowa Poll found that while "three out of four Iowa adults believe their drinking water is safe for now, 82 percent say they are concerned about pollution of their water." Fifty-two percent of those polled named farm agrichemicals as the biggest threat. Seventy-eight percent of all Iowans, and over half of all farmers, favored limits on farm chemicals before the it is too late. Pins, Kenneth. 1986 (November 16). "Poll: Iowans want limits on ag chemicals." Sunday Register (Des Moines, Iowa). Support for regulation was also revealed in a recent poll of farmers conducted by the Agricultural Law and Policy Institute.

7. Sorensen (American Farm Bureau Federation) cites two estimates of potential reduction in pesticide use through universal adoption of IPM: the Office of Technology Assessment estimate of 75 percent, and Pimentel's estimate (for insecticides) of 50-75 percent. Sorensen, A. Ann. American Farm Bureau Federation. 1987. "Integrated Pest Management in the Midwest: Issues, Constraints, and Solutions". In Agricultural Chemicals and Groundwater Protection. Hinkle (National Audubon Society) cites the potential for 75 percent reduction in use of insecticides on cotton and apples. Hinkle, Maureen K. 1989. "Legislative Opportunities for Integrated Pest Management." National IPM Symposium Workshop Proceedings (in press). Cornell University Press, (Ithaca, NY).

8. The National Coalition for Agricultural Safety and Health. May, 1989. Agriculture At Risk: A Report to the Nation (Agricultural Occupational and Environmental Health: Policy Strategies for the Future). p. 47. The report also recommends elimination of fall application of nitrogen fertilizers and manures and development efforts to promote side-dress nitrogen applications.

9. National Research Council. Board on Agriculture. 1987. Regulating Pesticides in Food: The Delaney Paradox. National Academy Press (Washington, D.C.). p. 14. Also discussed in Benbrook, Charles M. June 6, 1989. "Will S. 722 Unravel Delaney's Paradox?" Testimony before the Senate Committee on Labor and Human Resources.

10. The Office of Technology Assessment defines "waste reduction" as "In-plant practices that reduce, avoid, or eliminate generation of hazardous waste so as to reduce risk to health and environment (does not include recycling). Pertains to all nonproduct hazardous outputs from an industrial operation into all environmental media even within permitted limits. Includes corrosive, flammable, explosive, and infectious, as well as toxic, wastes." O.T.A. 1986. Serious Reduction of Hazardous Waste. For a discussion of waste reduction in manufacturing and utility industries, see:

Irwin, Fran. 1987. America's Waste: Managing for Risk Reduction. In State of the Environment: A View toward the Nineties. The Conservation Foundation, (Washington, D.C.). pp. 437-440. Irwin stresses that reductions in volumes of waste are less important than reductions in risk through various source reduction techniques.

11. See, for example: Schneider, Keith. 1989 (May 28). "Big Farm Companies Try Hard at Organic Methods." New York Times. p. 1.

12. Reichelderfer, Katherine, and Tim T. Phipps. 1988. Agricultural Policy and Environmental Quality. National Center for Food and Agricultural Policy. Resources for the Future (Washington, D.C.). 24 pp.

13. The peer-reviewed scientific periodical of record for much of this research is the interdisciplinary American Journal of Alternative Agriculture, published by the Institute for Alternative Agriculture in Greenbelt, Maryland.

14. See Regulating Pesticides in Food (National Research Council).

15. Early states that testing and research required by the federal pesticide regulatory process is a "major contributor" to increases in the cost and time required to introduce a new pesticide. "....hundreds of thousands of chemicals were tested for pesticide potential between 1972 and 1981, with only 80 new chemicals registered as pesticides in that period. It is a major challenge to find chemicals and other means that possess the unique ability to control a target pest without adversely affecting humans or the environment." Early, Dr Jack D. National Agricultural Chemicals Association. 1989 (June 22). Testimony before the United States Senate Committee on Agriculture, Nutrition, and Forestry. Subcommittee on Conservation and Forestry. pp. 12-13.

16. State of the Environment (The Conservation Foundation, 1987), p. 143.

17. Healy, Robert G., Thomas E. Waddell and Kenneth A. Cook. 1986. Agriculture and the Environment in a Changing World Economy. Also in State of the Environment (The Conservation Foundation, 1987), p. 399-400. A more sophisticated treatment of "excess capacity" is found in Dvoskin, but it does not translate excess capacity into excess use of fertilizers or pesticides. Dvoskin, Dan. 1988. Excess Capacity in U.S. Agriculture: An Economic Approach to Measurement. U.S. Department of Agriculture. Agricultural Economic Report Number 580. 25 pages.

18. See: Hinkle, Maureen K. 1987. "Comments on EPA's Proposed Decision To Reregister Alachlor." National Audubon Society (Washington, D.C.)

19. Dvoskin, Excess Capacity, op. cit., calculated from Table 5 (p. 21). Production losses for soybeans, another major benefit cited by EPA in its review, also represent a fraction of estimated excess capacity for 1980-1986.

NACD

STATEMENT OF
THE NATIONAL ASSOCIATION OF CONSERVATION DISTRICTS
PRESENTED TO
THE HOUSE COMMITTEE ON AGRICULTURE
ON
DISCUSSIONS OF THE 1990 FARM BILL
JULY 13, 1989

Mr. Chairman, members of the subcommittee, my name is Steven R. Meyer and I am the Director of Governmental Affairs for the National Association of Conservation Districts. I am pleased to present to you those issues our association believes need to be addressed in the 1990 Farm Bill.

NACD represents the almost 3,000 soil and water conservation districts in this country and the more than 15,000 women and men who serve on the district governing boards. Conservation districts coordinate and carry out comprehensive natural resource management programs at the local level. As a result, they cooperate closely with those federal agencies that have natural resource management responsibilities. Because we share common objectives and jointly implement programs, our members feel it is very important for us to share our recommendations with your Committee.

The 1985 Food Security Act was, and continues to be, a landmark piece of federal farm program legislation. For the first time in the history of these programs, the government made protection of our soil and water resources one of the criteria for determining eligibility for farm program benefits. This step forward in recognizing that crop production is directly related to our resource base has done much to further our soil and water conservation efforts. These conservation programs are in no way a federal mandate on how to farm. The decision to adopt conservation practices is still the individual farmer's to make. If farmers do decide to ignore the resource consequences of their actions, they can do so. However, from 1985 forward, federal farm programs will no longer subsidize that decision to ignore resource conservation.

Districts have been cooperating closely with USDA agencies to implement the Conservation Title of the 1985 Food Security Act. This cooperative effort has allowed districts to evaluate the effectiveness of these new conservation provisions. Our general view is that these programs are working well and in need of only minor modifications. We urge this Committee to approach with caution any suggestions to make radical changes. In particular, we are wary of adding resource concerns beyond erosion control to compliance language at this time. We have not yet fully implemented the current provisions and would urge caution until this program is fully implemented.

NACD's testimony today will be presented in two sections. The first will provide you with our suggested changes to the conservation provisions of the 1985 Food Security Act. Because conservation districts are directly involved with implementing these programs, we have a close-up view of where adjustments need to be made in order to ensure that they are efficient, are usable by the farm community and meet the goals set by Congress. The second section will provide the Committee with some new ideas to consider for the conservation title of the 1990 Farm Bill. Attached to our written statement is a synopsis of these recommendations.

CHANGES TO THE CONSERVATION PROVISIONS OF THE 1985 FOOD SECURITY ACT

Conservation Reserve Program

The Conservation Reserve Program has proven to be one of our most popular and successful 1985 FSA conservation programs. Since enactment, over 30 million acres of highly erodible cropland has been protected. This has resulted in an annual reduction of 600 million tons of soil erosion from America's cropland. However, we are only two-thirds of the way to Congress' goal of having 45 million acres of land protected by this program.

We believe there are several reasons for this. In areas of highest early interest, counties are reaching the statutory limit on the percentage of the county that can be entered into the program, meaning no more acres will be enrolled in these areas. However, in much of the rest of the country, the high prices for commodities, caused in part by last year's drought have, made farmers reluctant to sign up for the program. These and other factors have combined to reduce total sign-up levels so that it is unlikely that 45 million acres can be retired by 1990. NACD urges this Committee to include in the 1990 Farm Bill an extension of the sign-up for CRP to allow the program to reach its full potential for protecting this country's resources.

USDA has begun to use CRP to accomplish other environmental goals, such as protecting areas subject to scour erosion and existing wetlands. NACD firmly believes that USDA should continue to provide long-term protection to these "environmentally sensitive" lands. However, it is equally important for CRP to retain its original goal of reducing soil erosion on cropland. In order to accomplish these two objectives, NACD believes that the total amount of land to be contracted will have to be increased above the current 45 million acre ceiling.

Included with enlargement of CRP, NACD suggests expansion of the eligibility criteria. Specifically, we propose that CRP contracts be offered for any lands: where change from cropping to permanent vegetation would result in improved surface or ground water quality; that would result in control of saline seeps; that are or contribute to sinkholes; that are pasturelands with high erosion rates; and that are converted wetlands, as long as they are returned to wetland conditions. We believe that these additions to the eligibility criteria will enhance our resources and protect lands that have marginal values for crop production.

Our last recommended change for the Conservation Reserve Program has to do with promoting tree planting. The past year has produced numerous reports on loss of forest lands and this loss impacts global warming. One way for the United State to begin to address this world-wide concern is to encourage planting of trees. In order to improve incentives for tree planting under CRP, NACD suggests that all contracts for acres planted to trees be extended to 15 years, with annual rental payments to continue for the entire contract period. In addition, we believe the existing statute should be amended to allow cost-sharing for up to 75 percent of the cost to plant trees. These two changes should result in increased tree planting under CRP. These improved incentives should also apply to the planting of windbreaks and shelterbelts.

Conservation Compliance

The Conservation Compliance provision of the 1985 Food Security Act probably has been the most far reaching of our new conservation programs, because it impacts every farmer enrolled in federal farm programs. However, we have noticed that with the passage of time, most farmers have come to understand and accept this provision. At this point, districts and SCS have completed 78% of the required conservation plans and we fully expect to be able to serve all farmers who request assistance prior to the statutory deadline later this year.

The major question that continues to arise is the use of Alternative Conservation Systems to meet the planning requirements. There is still a faction calling on Congress to amend this provision so that erosion will be reduced to "T" in all cases. NACD does not support this change.

The goal of compliance was to reduce erosion from cropland. ACS's will do exactly this. NACD has always believed that conservation planning take into account local conditions and needs. We are still offering conservation plans that will reduce erosion to "T", but there can be extenuating circumstances which make adoption of this type of plan not feasible immediately. ACS's give us the flexibility we need to begin reducing erosion today while continuing to work toward our goal of reaching "T" levels in the future.

I would be remiss if I didn't highlight one major concern we have with compliance. By streamlining and using innovative planning techniques, districts and SCS have been able to meet planning requirements up to this point. However, our ability to meet the implementation deadlines for these plans is seriously in doubt. NACD believes that in the next five years we are not going to be able to meet application technical assistance requests without increased resources. This means that farmers could lose their program benefits because of our inability to meet their needs. The only way to rectify this pending problem is to allocate a new federal resources for implementation of these conservation plans. Now is the time to show that the federal government does place a high priority on resource conservation and protection by allocating these new resources. If we fail to do so, we leave the farm community to pay the costs of this policy.

Swampbuster

The current language on the Swampbuster provision gives the farmer absolutely no management flexibility. NACD is concerned that in our quest to protect wetlands from conversion, we have failed to address adequately the needs of the landowner. To protect the resource while allowing the farmer to make necessary management decisions, NACD supports changing Swampbuster legislation to permit limited wetlands conversion in return for wetlands creation.

At times, farmers need to adjust the way they manage their lands. Many times this is done to improve the efficiency of their operations. What we are suggesting is to allow the farmer to move a wetland. The landowner would be required to recreate the converted. This new wetland would have to be in a nearby location, produce the same values, and have scientific evidence that the creation will succeed. NACD believes this change would meet all the needs of people interested in Swampbuster.

Sodbuster

The major problem our members have identified with Sodbuster, and in many instances Swampbuster, is the all or nothing nature of the penalty. This so-called "dropdead" penalty results in only one level of penalty, complete loss of all benefits regardless of the type or magnitude of the infraction.

Conservation district officials believe that some flexibility needs to be built into the penalty. ASCS should have limited flexibility to make the penalty fit the infraction. For instance, if a farmer inadvertently sodbusts some land, but is willing to rectify the problem, then ASCS should be allowed to set the penalty at a level less than loss of all benefits. However, this should not be construed to mean that a small but willful violation of the sodbuster regulations should be forgiven. NACD still believes that willful violations of sodbuster and swampbuster should be penalized to the maximum extent possible.

SUGGESTED NEW INITIATIVES FOR THE 1990 FARM BILL

Multi-year Set-asides

The 1985 Food Security Act authorized the Secretary of Agriculture to institute multi-year set-asides for commodity programs. However, USDA has never utilized this authority. NACD believes that the 1990 Farm Bill should this authority mandatory rather than discretionary.

For many years our members have identified the annual changes in set-aside requirements as one of the major impediments to installation of long-term conservation practices. The continually changing nature of set-asides has always resulted in conservation farmers being penalized for protecting our resources. With implementation of conservation compliance, this will become even more critical. Farmers need to know that when they implement a rotation system as could be called for under the compliance plan, they will not be penalized through loss of base. In addition, use of multi-year set-asides will be effective in improving wildlife habitat, enhancing wetlands protection and providing positive benefits to state water quality programs. We urge you to adopt a multi-year set-aside program and make the program available during the life of the next farm bill.

Long-term Protection of CRP Acres

With the 1990 Farm Bill, we must begin to address the future of CRP acres as these contracts begin to expire. Current law on retention of bases puts enormous pressure on landowners to return to cropping this land as soon as the contract expires. We need to provide incentives to CRP contract holders to keep this land in permanent vegetative cover. If we don't do something now, we could easily lose all of the benefits generated by CRP over the past five years.

Water Quality

The 1990 Farm Bill should include a program to begin addressing agricultural pollution of our surface and ground water. I want to tell you that NACD is in the process of developing one in cooperation with several commodity and general farm organizations. Our final proposal will include research, technical and financial assistance, education, and coordination with state and local governments. When the proposal is finalized we will share this with the Committee.

Low-Input Sustainable Agriculture

NACD supports promoting use of sustainable agriculture practices as long as farmers retain management options for their operations. The current terminology is Low-Input Sustainable Agriculture. If the committee develops a LISA program, we hope that the cornerstone will be positive incentives to encourage voluntary adoption of these farming systems.

NACD also encourages you to concentrate on "Sustainable Agriculture" without making the assumption that it must be achieved through lowered inputs. For fifty years, conservation districts have promoted agricultural practices that protect and improve our natural resource base. So "Sustainable Agriculture" is really nothing new. The new concept appears to be a move to equate sustainability with reduced use of agricultural chemicals. NACD does not believe that a production system has to necessarily have reduced chemical usage to be sustainable. It may simply mean that we need to do a better job of managing these inputs. We hope that the program finally developed includes research, demonstration projects, and removal of program disincentives to adoption of conservation practices.

Wetlands Restoration

Our final suggestion is establishment of a wetlands restoration program. The current CRP program provides for protection for existing wetlands. However, if we are to meet the President's stated goal of no overall net loss of our wetlands resources, we will need restore previously converted wetlands to their original state.

In order to encourage farmers to restore wetlands, we must develop an incentive program, providing an adequate financial return to the landowner. At the same time, we will want to provide permanent protection to the wetland. One current method to do this is to purchase a permanent easement on the wetland. However, our challenge will be to closely examine this issue and develop a set of options that will result in farmers wanting to restore their converted wetlands. NACD offers its assistance to work with the committee to develop these alternatives.

Thank you for the opportunity to appear before you today.

NATIONAL ASSOCIATION OF CONSERVATION DISTRICTS

RECOMMENDATIONS FOR 1990 FARM BILL

Changes to 1985 Conservation Provisions

Conservation Reserve Program

Extend sign-up period for Conservation Reserve.
Enlarge Conservation Reserve beyond 45 million acres.
Expand eligibility criteria for lands being entered into CRP.
Improve incentives to encourage more tree planting.

Conservation Compliance

Do not change current use of Alternative Conservation Systems. be additional federal resources to meet conservation plan application deadlines.

Swampbuster and Sodbuster

Allow limited conversion of wetlands if they are fully mitigated.
Give ASCS limited flexibility in setting penalties for violations.

New Initiatives for 1990 Farm Bill

Multi-year Set-sides

Mandate that USDA use multi-year setasides to promote conservation goals.

Long-term Protection of CRP Acres

Develop methods to encourage farmers to keep CRP acres in vegetative cover after contracts expire.

Water Quality

Develop a program to deal with agricultural water pollution that includes technical and financial assistance, research, education, and coordination with state and local governments.

Sustainable Agriculture

Develop a program to encourage farmers to adopt sustainable agriculture systems.

Wetlands Restoration

Develop a program to provide incentives to landowners to restore converted wetlands to their original state.

International Association of Fish and Wildlife Agencies
(Organized July 20, 1902)
Hall of the States
444 North Capitol St. NW, Suite 534, Washington, DC 20001 (202) 624-7890
R. Max Peterson, Executive Vice President

Statement of the
International Association of Fish and Wildlife Agencies
before the
U.S. House of Representatives
Committee on Agriculture
on the
1990 Farm Bill
13 July 1989

Mr. Chairman and members of the Committee, the International Association of Fish and Wildlife Agencies (Association) appreciates the opportunity to testify before your committee to present the Association's views on the 1990 Farm Bill.

The Association, founded in 1902, is a quasi-governmental organization of public agencies charged with the protection and management of North America's fish and wildlife resources. The Association's governmental members include the fish and wildlife agencies of the states, provinces, and federal governments of the U.S., Canada, and Mexico. All 50 states are Association members. The Association has been a key organization in promoting principles of sound resource management and strengthening of federal, state, and private cooperation in protecting and managing fish and wildlife resources and their habitats in the public interest.

It is in the vein of protecting fish and wildlife habitat that the Association comments on the reauthorization of the landmark conservation provisions of the 1985 Food Security Act (Farm Bill). In particular, the Conservation Reserve Program (CRP) and the so-called "Swampbuster" program have been most successful in reducing soil erosion while concurrently protecting and enhancing fish and wildlife habitat through the inclusion of more than 30 million acres in the CRP program.

The capability of the CRP to provide fish and wildlife habitat were further enhanced early this year with the inclusion of shelterbelts, riparian areas, and some wetlands into the program.

The 1985 conservation provisions of the Farm Bill have clearly demonstrated that agricultural and conservation interests are compatible and lead to enhanced wildlife habitat in the Nation. The Association's recommendations for the 1990 Farm Bill are aimed at continuing and fostering this compatibility.

CRP and Wildlife

The Association, with passage of the 1985 Farm Bill, quickly recognized the potential positive benefits to wildlife. As a result, the Association, in conjunction with the U.S. Fish and Wildlife Service, is studying the effects of the CRP on wildlife. During 1988 data were collected from 27 states in four regions (Figure 1): the Midwest, Southern Great Plains, Northern Great Plains/Intermountain, and Southeast. Data have been partly analyzed for the first three regions. Five common species were chosen to be representative of game and non-game animals because of their wide geographic distribution and relative abundance. Species chosen were the pheasant, eastern and western meadowlarks, gray partridges and cottontail rabbit. Habitat value of CRP was identified as important and Figure 2 illustrates habitat value of 1986 and 1987 CRP contracts for four species. Although CRP fields are not necessarily optimum habitat, their value for wildlife was negligible prior to enrollment while crops were grown. Furthermore, habitat quality is expected to improve on CRP lands as the vegetation ages, especially for cottontails.

The study has found that some types of CRP plantings benefit wildlife more than others. Our study found that wildlife plantings and native grass are better than tame grass . It was also found that pheasants are limited on many fields due to a lack of shrubs for winter cover and grain for winter food, while cottontail rabbits were limited by a lack of shrub cover.

Although a relative few species were studied, the improved habitat conditions further indicates that CRP likely benefits many other species. Highly erodible land enrolled in CRP is providing cover needed by wildlife; cover that is in short supply in much of our Nation's farmland. In addition, the recent inclusion of wetlands, riparian corridors, and shelterbelts in CRP should further improve fish and wildlife habitat. Results from the study found that by increasing the amount of woody vegetation and wetland plants, such as cattails, added to the supply of cover from winter weather, as well as creating reproductive habitat for many species including dozens of non-game bird species .

The fortuitous study of CRP lands affected by the 1988 drought and then hayed, has resulted in data on ramifications on wildlife when CRP lands are hayed. According to USDA data, emergency haying was extensive in 1988 (Figure 3). Data from study CRP fields mowed for weed control during 1988 suggest that the emergency haying had a strong negative impact on cover (Figure 4). Furthermore, it is likely that fields mowed one year should have much poorer cover for nesting at the start of the next year's nesting season.

These results indicate that the degree to which haying, or a similar disturbance such as grazing, affects wildlife cover is dependent on when the haying and grazing occurs, as well as the moisture conditions after the disturbance. This finding suggests that a rational and reasonable haying and grazing policy would be a valuable addition to the 1990 Farm Bill.

In addition to benefitting terrestrial wildlife, reduced soil erosion from CRP acreage should benefit aquatic vertebrate and fish populations. The CRP is resulting in a tremendous reduction in the amount of soil entering our water bodies; this will clearly benefit aquatic organisms. Although not directly studied, the CRP's contribution to soil erosion will certainly benefit aquatic organisms. For example, walleye habitat in rivers can decline from optimum to 25% of optimum by increasing the sediment load enough to decrease water transparency from 1.5 meter to 0.5 meters. Also, soils entering streams and subsequently smothering trout and salmon eggs with fine sediments is widely documented. In addition, the recent inclusion of filterstrips into the CRP will further reduce sediment load in streams, thus benefitting aquatic resources.

It is not suprising that results being obtained from the Association's study are intuitively obvious, in the sense of providing positive impacts for wildlife. It makes good sense that increasing the amount of cover benefits both nongame and game wildlife. For this reason, wildlife biologists across the country are lauding the CRP's benefits.

In summary, the Association has found the 1985 Farm Bill amendments to contain enormous benefits for fish and wildlife. It has also fostered cooperative relationships between the agriculture and conservation communities. A state fish and wildlife agency representative recently noted: "The 1985 Farm Bill has created cohesive working relationships with agencies that we had never worked with before." It is in this spirit that the Association wishes to continue to support this legislation and offer recommendations for further improvement.

RECOMMENDED 1990 FARM BILL CONSERVATION PROVISIONS

The Association's recommendations for the 1990 Farm Bill are aimed at strengthening the gains that have been made and reinforcing the view that agriculture and conservation are compatible activities.

Conservation Reserve Program

The Association believes that, due to the CRP's success, an important provision of the 1990 Farm Bill will be to determine what should be done with CRP contracts at the end of 10 years. It would be a great loss to the public if the good management practices, which the taxpayer has fostered through CRP, were not continued. Therefore, to maintain erosion control and enhanced wildlife value on CRP lands, the Association recommends that CRP contracts be extended by five years, from the current 10 to 15 years. Management and monitoring of these lands are needed, as is consultation with state fish and wildlife agencies, to devise strategies to protect farmland from returning to the plow after CRP contracts expire.

Among the topics for Committee consideration are proposals to extend new contracts to 15 years and to require "T" standards after contract expiration. The Association believes that it is now time for these discussions. Through the conservation provisions of the 1985 Farm bill, a vehicle exists that benefits agriculture and conservation interests.

Long-term extension of these provisions will maintain, and build upon, this cooperation, ultimately benefitting the agricultural community, wildlife, and the entire Nation.

Agricultural Wetlands

The wetland conservation, or "Swampbuster", provisions of the 1985 Farm Bill were written largely to protect agricultural wetlands from conversion. However, the provision of Swampbuster that payments not be withheld unless a wetland is drained and planted in a commodity crop has reduced the value of this program. The cross-compliance language of Swampbuster is too loose to be effective in preventing wetland conversion. There has been much discussion on how to strengthen the Swampbuster provisions.

The Association has considered numerous alternatives for wetland protection. One option is establishment of a Wetlands Reserve and Restoration Program. Such an alternative could direct the Secretary of Agriculture to make all existing and drained wetland basins, and adjacent uplands, eligible for the program. The Secretary could purchase easements on program lands; the easements would: 1) require wetland restoration; 2) restrict alteration such as planting, cultivation, grazing, draining and filling; 3) require planting permanent cover on surrounding upland; and 4) provide cost sharing for wetland restoration and upland cover establishment.

Another alternative for protecting wetlands in agricultural areas is through expanding the Water Bank Program to include all wetlands in the Nation and to modify the program to allow perpetual easement purchase for wetlands with a medium to high potential for conversion. The Association will have concrete recommendations for the Agriculture Committee's consideration which will be consistent with President Bush's "no net loss" wetlands policy.

Conservation Compliance

Conservation Plans due on all lands in 1990 must be retained as an integral part of the Farm Bill as these plans will reduce soil loss and improve the environment on lands across the Nation. Further, the Association believes that Conservation Compliance and Sodbuster provisions of the Farm Bill should use the "T" standard to measure soil loss rather than relying on a technical guide. We feel that this would promote uniformity between states which will lead to reduced soil erosion in most cases. The Conservation Compliance provisions will result in significant benefits to fish and wildlife, and resource conservation generally. To be effective, monitoring of all Conservation Plans is very important.

Annual Set-Aside

Finally, the Annual Set-Aside Program offers many opportunities for wildlife enhancement. The Association recommends that part of the Annual Set-Aside Program acreage be committed to multi-year contracts. Possible options include multi-year set-asides and a Strategic Forage Reserve (SFR). The SFR would require that the Secretary of Agriculture create a program to provide livestock forage during emergency drought situations.

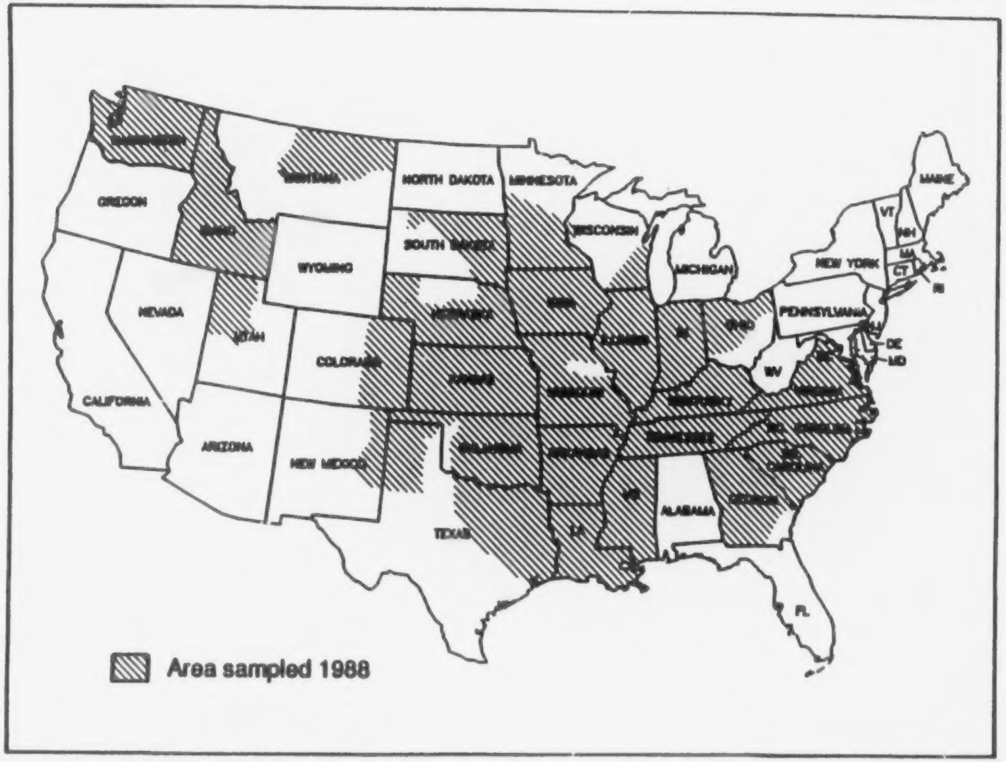
The SFR could be established from acreage already enrolled in the Annual Set-Aside Program. We recommend that such a program include: 1) at least 50% of the land of future set-aside programs; 2) provisions for 3-5 year contracts; 3) required permanent grass or grass/legume cover cropsl 4) cost sharing for cover crop establishment; and 5) specific provisions to allow haying only in times of natural disaster. Figure 5 compares the projected habitat values for pheasants in the midwest using two scenarios. The first assumes seed is planted each spring and mowed in the late summer. The second assumes multi-year set-aside land mowed in late summer every third year. While the strategic forage reserve scenario is not as good for pheasants as permanent cover, it would be a great improvement from the current situation.

The second option, though less desirable from a fish and wildlife perspective, is to enter 50% of Annual Set-Aside lands into multi-year contracts with limited use of this acreage. Haying and grazing could be permitted with restrictions on seasonal use and livestock grazing rates. Under either option, we recommend that state fish and wildlife agencies be consulted on the technical aspects of wildlife practices on Annual Set-Aside lands where the landowner has requested technical assistance for wildlife habitat development. This would be particularly beneficial for wetland restoration, long-term CRP planning, wildlife food plots, and determining the best seasonal use and livestock grazing rates for a particular state.

Related to limited use of set-aside lands, the Association recommends that the 1990 Farm Bill include specific criteria for haying and grazing of CRP lands during drought emergencies. The drought experience of 1988 and this summer points to the need for a policy to objectively determine criteria under which CRP lands may be hayed or grazed. This policy would reduce reaction in an "ad hoc" manner each year. We recommend using a standardized drought severity index, and seasonal use and livestock grazing rate restrictions, compatible with a state's farming and wildlife conditions, as specific criteria for determining the need for haying and grazing.

The Association believes that the cost-sharing formulae for shelterbelts, tree planting, and wildlife food plots be changed to better reflect the high costs of establishing these cover types.

In summary, the International Association of Fish and Wildlife Agencies believes that the conservation title of the 1985 Farm Bill is a strong piece of legislation that benefits, and fosters cooperation between, agricultural and conservation interests. The changes that we recommend are offered with this cooperative spirit in mind. We look forward to working with the Agriculture Committee, farm community, and other conservation groups in maintaining and improving the 1985 Farm Bill. The Association offers the collective technical expertise of the 50 state fish and wildlife agencies for this important effort. Mr. Chairman, that concludes our statement. We appreciate the opportunity to testify before your committee and will be glad to answer any questions that you have.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COLORADO
WYOMING
NORTH DAKOTA
MINNESOTA
SOUTH DAKOTA
WISCONSIN
MICHIGAN
NEW YORK
PENNSYLVANIA
MAINE
VT
NH
MA
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OHIO
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MS
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ALABAMA
TEXAS
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▨ Area sampled 1988

Figure 1: Areas sampled in CRP study.

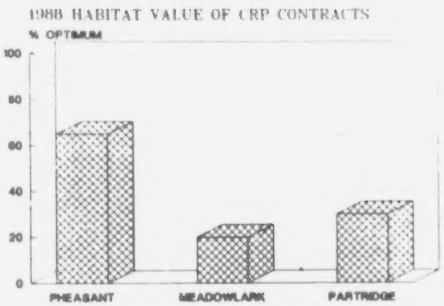

Figure 2: Habitat values of CRP contracts.

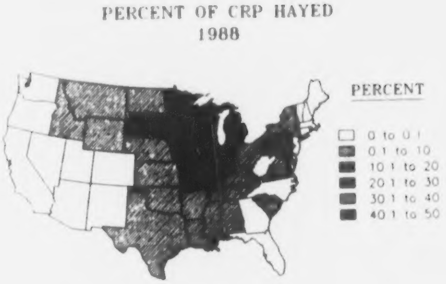
PERCENT OF CRP HAYED
1988
PERCENT
0 to 0.1
0.1 to 10
10.1 to 20
20.1 to 30
30.1 to 40
40.1 to 50

Figure 3: Percent of CRP hayed by state.

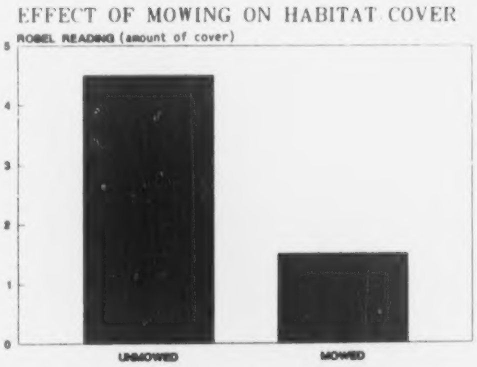

Figure 4: Effect of mowing on habitat cover.

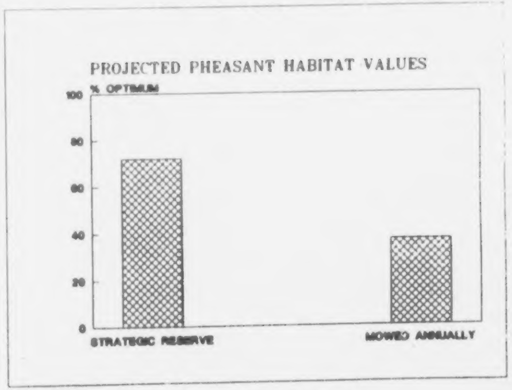

Figure 5: Projected pheasant habitat values.

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STATEMENT OF

THE NATIONAL WILDLIFE FEDERATION

BEFORE

THE HOUSE COMMITTEE ON AGRICULTURE

ON

THE 1990 FARM BILL AND PUTTING A STOP TO THE AGRICULTURAL CONVERSION OF WETLANDS

JULY 13, 1989

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Izaak Walton League of America

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PUTTING A STOP TO THE AGRICULTURAL CONVERSION OF WETLANDS

Mr. Chairman and Members of the Committee, the National Wildlife Federation (NWF) appreciates the opportunity to provide the following statement on the agricultural conversion of wetlands and suggested measures to halt such conversion. You have asked for our concerns and ideas concerning the 1990 Farm Bill. While we are concerned about all of the soil and water conservation issues raised in the Farm Bill debate, we are particularly concerned about the alarming and unacceptable rate of wetlands loss in this country, and the large proportion of the loss which is attributable to agricultural conversion. Between the mid-1950s to the mid-1970s, 87% of the wetland losses nationwide were attributable to agricultural conversion. See, U.S. Fish and Wildlife Service, Wetlands of the United States: Current Status and Recent Trends 31 (1984) (Wetlands Status and Trends). Therefore, our testimony focuses on documenting our wetlands concerns and recommending measures to stop the loss of wetlands due to agricultural conversion. Many of these measures can and should be included in the 1990 Farm Bill.

The National Wildlife Federation and our 51 state and territory-wide affiliate organizations have, since their inception, maintained a strong commitment to the protection of our Nation's wetlands. We have contributed our expertise and our views regarding wetlands protection in Congress, in the courts, and in the agencies at virtually every opportunity. We consider ourselves partners in a national effort to preserve one of our most vital natural resources.

Formed in 1922 over concern for our Nation's declining water quality, the Izaak Walton League of America has a long history of interest in wetlands preservation. The

League first passed a resolution advocating protection of a wetland in 1926. Our more than 50,000 members nationwide are avid hunters and fishermen, conservationists, and outdoor enthusiasts who depend on wetlands for their recreation and enjoyment.

Most recently, NWF participated in the National Wetlands Policy Forum, a diverse group of business, environmental, agricultural, and governmental leaders, which produced a Final Report in 1988 making over 100 recommendations for national wetlands protection. The Forum Report, and its suggested "no overall net loss" of wetlands goal, have been endorsed by President Bush. Many of the suggestions set forth in this testimony come directly from the Forum Report.

The National Wetlands Policy Forum Report and President Bush's endorsement of the Report demonstrate a strong national consensus that wetlands are indeed valuable natural resources vital to our present and future standard of living, that we have already lost too many of our Nation's wetlands, and that we must find ways to achieve the no overall net loss of our wetlands in the short term and to increase the quality and quantity of our wetland base in the long term. Given the significant wetland losses attributable to agricultural conversion, it is essential that this Committee take an active role in enacting legislation which will achieve these important goals.

This testimony describes the acreage, types, and functions of the wetlands threatened by agricultural conversion, and specifically addresses the threats to wetlands on agricultural lands, the limitations of existing programs for wetlands protection, and suggestions for effectively protecting and restoring wetlands on agricultural lands through the 1990 Farm Bill.

Our basic conclusions are as follows:

1. Wetlands on agricultural lands are being destroyed primarily through drainage, dredging, excavation, and clearing of wetland vegetation.

2. Existing wetlands programs do not prevent these losses.

3. Measures to stop the agricultural conversion of wetlands must include:

**** Providing better incentives to private wetland owners to protect wetlands permanently for the public benefit, including the creation of an Agricultural Wetlands Reserve Program. Forum Report at 31.**

**** Reducing wetlands losses resulting from government programs, including the vigorous and consistent implementation of Swampbuster to eliminate government inducements for the conversion of wetlands to agriculture. Forum Report at 53.**

**** Instituting more effective and even-handed regulatory programs to ensure that no types of wetland conversions--including those resulting from drainage, excavation, the destruction of vegetation, and other causes--are allowed to escape unreviewed because of the peculiarities in the wetlands protection laws and regulations. Forum Report at 3-4.**

**** Fully mitigate for unavoidable wetland losses and begin programs for wetlands restoration, including an Agricultural Wetlands Reserve Program to fund the restoration of former wetlands converted to agriculture. Forum Report at 3-4.**

AS MANY AS 70 MILLION OF THE REMAINING 90-95 MILLION WETLAND ACRES IN THIS COUNTRY ARE POTENTIALLY SUBJECT TO AGRICULTURAL CONVERSION.

According to the Soil Conservation Service's (SCS) 1982 Natural Resources Inventory(NRI) and the Department of Agriculture's 1986 Environmental Assessment for the Wetland Conservation Provisions of the Food Security Act of 1985 (USDA EA), of the estimated 95 or so million wetland acres remaining in the lower 48 states, about

70 million acres of nonfederal wetlands are potentially subject to agricultural conversion. USDA EA at 11. The remaining wetlands most vulnerable to agricultural conversion are palustrine (upland, generally fresh water) wetlands in private ownership. Approximately 80% of wetlands not federally protected are privately owned. Of the 70.7 million acres of nonfederal palustrine wetlands, the 1982 NRI rated 5.1 million acres as having a moderate to high potential for conversion to cropland in 1982. About 85 percent of these 5.1 million wetland acres could be easily brought into production. Heimlich & Langner, "Swampbusting in Perspective," 41 Journ. of Soil & Water Conservation (No. 4) 219 (1986) (Swampbusting in Perspective).

Approximately 16 million acres of wetlands remaining in 1982 would have earned short-term positive returns if converted, assuming 1985 crop prices and subsidy program participation rates. Heimlich & Langner, "Swampbusting: Wetland Conversion and Farm Programs," USDA Ag. Econ. Rep. No. 551 (1986); Swampbusting in Perspective, pp. 220-221. Therefore, the 5.1 million acre estimate of wetlands with a high or medium potential for agricultural conversion probably represents the low end of the range.

THESE WETLANDS WHICH ARE SO VULNERABLE TO AGRICULTURAL CONVERSION PROVIDE ENORMOUS PUBLIC BENEFITS.

In 1984, the U.S. Fish and Wildlife Service (FWS) identified nine types of wetlands in the United States "that are in greatest jeopardy from a national standpoint." Wetlands Status and Trends, pp. 35-36. Agricultural conversion is a major threat to six of these nine types, including the prairie potholes of the Dakotas, Montana, and Minnesota, the Lower Mississippi River bottomlands, the palustrine wetlands of South Florida, the Nebraska Sandhills and Rainwater Basin, the pocosins of the North Carolina coastal plain, and western riparian wetlands. Swampbusting in Perspective, pp. 223-224.

The Prairie Pothole Wetlands

The prairie potholes represent America's duck factory: "Prairie potholes are the most valuable inland marshes for waterfowl production in North America." Wetlands Status and Trends, p. 42. While the Prairie Pothole Region comprises only 10% of North America's waterfowl breeding area, it produces 50% or more of the continent's ducks. Id. About 87% of the ducks bred in the lower 48 states breed in the Dakotas, Minnesota, and Montana. Wittmier, "Prairie Potholes: Can We Save Them From The Plow?," 50 Outdoor America (No. 4), p. 9 (1985) ("Can We Save Potholes?"). When drought strikes Canadian breeding areas, the United States and especially North Dakota areas can be crucial to maintaining the continental waterfowl population.

The smaller, shallower potholes -- the ones most vulnerable to conversion -- are important to breeding pairs because these wetlands thaw early in the spring and provide abundant invertebrates and aquatic plant food. The large number of these small, isolated wetlands also facilitates waterfowl production by permitting breeding pairs to disperse and claim territory, and by reducing the risk of disease which is increased when waterfowl are concentrated on shrinking habitat. Wetlands Status and Trends, p. 43; Can We Save Potholes?, p. 9. Linder & Hubbard, "Wetland Values in the Prairie Pothole Region of North America," in Proceedings of Great Plains

Agricultural Council (1982). Although these wetlands may hold water for only a short time each year that period is critical to migrating ducks for resting stops and for courtship and egg-laying. U.S. Fish & Wildlife Service, "Wetland Resource North Dakota" (unpubl.).

In 1980, an estimated $638 million was spent by hunters pursuing migratory birds. U.S. Fish and Wildlife Service, 1980 National Survey of Fishing, Hunting, and Wildlife-Associated Recreation, p.70. Moreover, they are highly valued by the estimated 2 million duck hunters found in every state of the Union. Duck populations have crashed to their lowest levels in recorded history. The reason, according to FWS, is simple: loss of habitat. U.S. Fish & Wildlife Service, A National Waterfowl Management Plan for the United States 5 (1982). The loss of habitat in the United States precipitating this decline is directly attributable to the agricultural conversion of the highly productive prairie pothole wetlands.

Wildlife is far from being the only or even the most important reason for protecting prairie potholes. The prairie potholes of the Dakotas are important in recharging groundwater aquifers in this region. Hubbard & Linder, "Spring Runoff Retention in Prairie Pothole Wetlands," 41 Journ. of Soil and Water Conservation (No. 2) 122 (1986). One study in Northeastern South Dakota has estimated that 213 wetlands produced a total minimum recharge of about 12 acre-feet in a 1602-acre area. This volume could irrigate 160 acres with 1.4 inches of water, or supply water for 1,699 head of cattle for 1 year. Id.

Because prairie wetlands are hydraulically connected with the water table, their drainage should eventually result in declines in water table elevation. Id. The reverse is true if wetlands are saved. Thus prairie potholes are really "savings banks" for groundwater when drought strikes, as it often has in the Dakotas, with vicious effects on agriculture. Brun, et al., "Stream Flow Changes in the Southern Red River Valley of North Dakota," 38 North Dakota Farm Research Bimonthly Bull. (No. 5) 11 (1981) ("Stream Flow Changes in Red River Valley").

Flooding is a substantial problem in the Dakotas and can often lead to total destruction of crops and bridges, damage to homes and businesses, and erosion of valuable soils. In Enderlin, North Dakota, major sections of the town have been abandoned to repeated flooding, a phenomenon that has developed in only the last 25 years. Stream Flow Changes in Red River Valley, p. 11. Drainage of wetlands that would otherwise store excess water is a factor that has aggravated unprecedented flooding in the Southern Red River Valley in North Dakota. Id.; Ludden, et al., "Water Storage Capacity of Natural Wetland Depressions in the Devils Lake Basin of North Dakota," 38 Journ. of Soil and Water Conservation (No. 1) 45 (1983). While climate plays a major role in the timing and degree of flooding, potholes reduce flood flows.

Prairie pothole wetlands store spring snow melt and storm runoff and thereby moderate flooding in the Dakotas. The 213 small wetlands in the 1602-acre South Dakota study area discussed above retained a minimum of 158.7 acre-feet of water during the spring thaw. Drainage of these wetlands would contribute to flooding at lower elevations in the watershed under certain conditions. Id. Prairie potholes in the Devils Lake Basin of North Dakota have a maximum storage capacity of 657,000 acre-feet, and retain 72% of the total runoff of a 2 year event. These potholes would retain about 41% of the total runoff of a 100 year event. Ludden, et al., "Water Storage

Capacity of Natural Wetland Depressions in the Devils Lake Basin of North Dakota," 38 Journ. of Soil and Water Conservation (No. 1) 45 (1983). Drainage of these wetlands could significantly affect flooding in the Devils Lake Basin.

Despite the importance of these prairie wetlands, they continue to be drained at a rate of some 20,000 acres per year. Department of Interior, The Impact of Federal Programs on Wetlands (Volume I) 80 (1988) (DOI Report). According to FWS's National Wetlands Inventory, only 5.3 million of the original 17 million acres of prairie wetlands in the prairie pothole region of the Dakotas and Minnesota remain today. Most of this destruction was caused by conversion to farming. Wetland Status and Trends, p. 42. About 588,000 wetland acres in this region have a moderate to high potential for conversion to agriculture. Swampbusting in Perspective, p. 223.

The Lower Mississippi River Valley Bottomlands

The bottomland hardwood forests of the Lower Mississippi floodplain are forested wetlands characterized by such tree species as gum and cypress in the lowest areas, and water-tolerant oaks and water hickory on slightly higher ground. Bottomland hardwood forests provide highly valuable fish and wildlife habitat.

The lower bottomland areas, the swamps and semi-permanently flooded zones, are used extensively by migrating waterfowl as staging and overwintering areas. Two and one half million of the three million mallards of the Mississippi Flyway, and virtually all of the four million wood ducks, use these wetlands as overwintering grounds. DOI Report at 39.

Mink, otter, and beaver inhabit these lower bottomlands, as well. Indeed, the Louisiana bottomlands produce a larger annual fur harvest than any other state-- up to 65% of all U.S. production. Harris and Gosselink, "Cumulative impacts of bottomland hardwood conversion on hydrology, water quality, and terrestrial wildlife." (1986) (Unpubl. Report). Flooded bottomlands also provide important fish spawning and feeding habitat, supporting some of the highest fish populations of any habitat. Harris, et al., "Bottomland Hardwoods: Valuable, vanishing, vulnerable." (1984).

In addition to providing vital fish and wildlife habitat, the bottomland hardwood wetlands are effective nutrient filters, particularly in converting inorganic nitrogen and phosphorus to organic forms. These nutrients are absorbed in bottomland soils and taken up by forest vegetation. Harris and Gosselink (1986). Toxic substances, such as pesticide residues, and other heavy metals and chlorinated hydrocarbons, may also be removed from streamflows by bottomland hardwood wetlands. Such removal probably occurs by adsorption onto suspended sediments, followed by incorporation and stabilization in the sediment. Office of Technology Assessment, Wetlands: Their Use and Regulation 49 (1984) (OTA Report); Wetlands Status and Trends, p. 18. This filtering function of the remaining bottomlands is particularly important in light of the high rate of conversion to agriculture and the associated increases in agricultural run-off in the Lower Mississippi River Valley.

Bottomland hardwoods also provide an important erosion control function, thereby simultaneously conserving soil and enhancing water quality. These wetlands reduce water velocity and retain soil in two major ways: first, the broad flat floodplain provides for meanders and overbank flooding, giving the water more area to spread out; second, the wetland vegetation acts in several ways to hold the soil. Harris, et al. (1984). Bottomland trees, shrubs, and vines reduce wave and current velocity by friction, and extensive, shallow root systems bind the sediments and stabilize the shoreline. Id.

Bottomland hardwoods provide flood storage and modify storm flows by temporarily storing surface water volume on the wetland, by recharging surficial aquifers, and by reducing flood water velocities. Id. Numerous studies have shown lowering of flood hydrograph peaks associated with bottomland hardwood floodplains. Harris and Gosselink (1986). Bottomland hardwood wetlands may also store groundwater and contribute baseflow to streams during dry periods. Brinson, et al., Riparian Ecosystems: Their ecology and status." (1981).

Only about 20% of the original bottomland hardwood wetlands, about 4-5 million acres, remain. DOI Report at 39. This wetland type is one of the most rapidly diminishing in the United States, with an estimated 2%, or over 100,000 acre, annual loss of the remaining wetlands. Id. A 1982 National Research Council study predicted that the most extensive wetland losses will continue in this region, with another 1.5 million acres expected to be lost by 1995. About 9% of the approximately 4.3 million acres of non-federal wetlands in this area, about 387,000 wetland acres, are considered to have a moderate to high potential for conversion. Heimlich and Langner (1986).

South Florida Palustrine Wetlands

South Florida's palustrine wetlands provide freshwater run-off which maintains the salinity balance in coastal estuaries supporting 85 percent of Florida's coastal marine fishery. Wetlands Status and Trends, pp. 40-41. These wetlands also provide breeding and wintering habitat for many bird species, and support a number of endangered species. Id. Agricultural conversion and projects to protect agricultural land from floods have been major factors in past wetland conversion. Id. Approximately 382,500 wetland acres in this region were rated in the 1982 NRI as having a moderate to high potential for conversion. Swampbusting in Perspective, p. 223.

Nebraska's Sandhills and Rainwater Basin

Nebraska's Sandhills and Rainwater Basin areas are migration stopovers critical for waterfowl and sandhill cranes in the Central Flyway. Wetlands Status and Trends, pp. 46-48. Agricultural conversion and irrigation-related wetland losses have concentrated migratory birds in remaining wetlands, resulting in increased incidence of disease. Id. About 128,850 wetland acres are estimated to have a moderate to high potential for conversion in this area. Swampbusting in Perspective, p. 223.

North Carolina Pocosin Wetlands

The North Carolina pocosin wetlands are principal groundwater recharge areas, and, like the South Florida wetlands, provide fresh water run-off essential to maintaining the salinity balance of the coastal estuaries. These wetlands also provide important wildlife habitat. Wetlands Status and Trends, pp. 49-50. The SCS has estimated that about 380,000 acres of pocosin wetlands in North Carolina have a moderate to high potential for agricultural conversion. However, conversion may be profitable on a much larger acreage due to economies of scale in large-scale wetland conversions. Swampbusting in Perspective, pp. 223.

Western Riparian Wetlands

The western riparian wetlands provide important food and cover for resident and migratory species of fish and wildlife in what are otherwise arid regions. Wetlands Status and Trends, pp. 50-51. These areas have been reduced significantly, in part due to agricultural conversion. Id. About 35,000 wetland acres in this area have a moderate to high conversion potential. Swampbusting in Perspective, pp. 223-224.

WETLANDS ON AGRICULTURAL LANDS ARE BEING DESTROYED PRIMARILY THROUGH DRAINAGE, DREDGING, EXCAVATION, AND CLEARING OF WETLAND VEGETATION.

Most wetland conversions to agriculture are caused by drainage and/or clearing of wetlands. OTA Report at 109, Table 18; USDA EA at 8-9. Such drainage has been a major factor in wetland conversion in the prairie potholes and in Nebraska, California, the Lower Mississippi River Valley, North and South Carolina, and South Florida. OTA Report at 121. DOI Report at 40-41, 81. Of the approximately 11.7 million freshwater wetland acres converted to agriculture between the mid-1950s and the mid-1970s, about half were forested wetlands first cut for timber and then converted to agriculture. USDA EA at 7.

Dredging and excavation of wetlands has also been a significant cause of agricultural wetland losses. These practices involve the direct removal of wetland vegetation and the underlying wetland soil. OTA Report at 119. Dredging and channelization for drainage and flood control has resulted in wetland conversions to agriculture. For example, stream channelization under the SCS P.L.-566 program induced considerable wetland conversion to agriculture in the prairie pothole states, not only because of direct losses but because the stream channelization provided an outlet for farmers' drains. DOI Report at 93. Excavation of wetlands for irrigation reuse pits has caused the partial drainage of some wetlands and the flooding of others for agriculture in Nebraska's Rainwater Basin. OTA Report at 120, Table 18.

WETLANDS ARE ALSO BEING LOST TO AGRICULTURE THROUGH INUNDATION, WATER DIVERSION, AND POLLUTION.

Flooding of wetlands is another significant cause of agricultural wetlands loss. Flooding has been associated with agricultural conversions of wetlands in the prairie potholes, with impoundments for agricultural water supply and flood control in the Lower Mississippi River Valley, the Lower Colorado River Valley, and Nebraska, and with aquaculture in Louisiana. OTA Report at 122, Table 18. See USDA EA at 9. The 1988 DOI Report notes, for example, that the Garrison dam and reservoir inundated approximately 55,000 acres of wetlands in North Dakota, and that the dams and reservoirs constructed by the Corps of Engineers (Corps) on the Missouri River during the 1950s and 1960s inundated and destroyed all the riparian wetlands and oxbow lakes in North and South Dakota (approximately 388,000 acres). DOI Report at 93.

Withdrawals and diversions of water for irrigation and flood control can lower the water table or actually dewater freshwater wetlands. In addition, diverting fresh water inflow in coastal areas will increase salt water intrusion into brackish and freshwater wetlands,destroying wetlands vegetation and reducing estuarine species diversity and productivity. OTA Report at 123.

Finally, another major contributor to the loss of wetlands is agricultural run-off. In particular, wetlands are filled with eroded soil from agricultural lands in the Chesapeake Bay area, the prairie potholes, and Nebraska. OTA Report at 124. USDA EA at 9. Pesticide residues and nutrients from fertilizers often end up in wetlands on agricultural lands, contaminating and degrading wetlands. USDA EA at 9; Forum Report at 46; Grue, et al., "Agricultural Chemicals and Prairie Pothole Wetlands: Meeting the Needs of the Resource and the Farmer--U.S. Perspective." (1989). Probably the most well-known illustration of this problem is the contamination of the Kesterson National Wildlife Refuge in California with selenium and other contaminants from irrigation return flows. See Feierabend and Zelazny, Status Report on Our Nation's Wetlands 33 (1987).

Our freshwater wetlands are being drained, dredged, cleared of vegetation, inundated, dewatered, and polluted for agricultural production at an estimated rate of 250, 000 acres per year. OTA Report at 108. These wetlands provide vital fish and wildlife habitat, flood control, water purification, and groundwater recharge functions. Between the mid-1950s and the mid-1970s, the Nation lost an estimated 11 million acres of these wetlands to agricultural use. OTA Report at 108. There are probably an additional 10 million wetland acres remaining that are particularly vulnerable to agricultural conversion. These are the wetlands which this Nation must take immediate steps to protect. We must also proceed with the restoration of previously converted wetlands, particularly those which can provide significant hydrological and biological functions.

EXISTING PROGRAMS FOR PROTECTING WETLANDS FROM AGRICULTURAL CONVERSION ARE INADEQUATE.

Existing programs for protecting wetlands simply are not adequate to protect the 10 million or so wetlands most vulnerable to agricultural conversion, to protect the other freshwater wetlands potentially subject to such conversion, or to begin to restore the wetlands that have already been converted for agricultural production. At the federal level, the two most important "regulatory" or "quasi-regulatory" programs are the Clean Water Act §404 dredged and fill material permit program administered jointly by the Corps and the Environmental Protection Agency (EPA), and the "Swampbuster" provision of the 1985 Food Security Act administered by the Agricultural Stabilization Service (ASCS) and the SCS within the USDA. Other programs which have the potential to protect wetlands on agricultural lands are federal conservation easement and fee title acquisition programs. The limitations of these federal programs are discussed in detail below. While many states now have wetlands protection programs, they generally suffer from the same deficiencies as the analogous federal programs, and thus cannot be relied upon to meet the challenge of halting the agricultural conversion of wetlands.

The §404 Permit Program Has Little Effect on Agricultural Wetland Conversions.

The Clean Water Act (CWA) §404 permit program regulates the discharge of dredged or fill material into wetlands. The Corps has generally refused to regulate the discharge of dredged or fill material that accompanies drainage, ditching, excavation, and the clearing of wetland vegetation, referring to such discharges as "de minimus." Consequently, many agricultural conversion activities simply are not regulated by the Corps under §404. This gap in wetland regulation is made distressingly clear in the following excerpt from a 1986 public notice issued by the Corps' Wilmington, North Carolina District, in which the Corps actually offers wetland drainage as a recipe for *avoiding* regulation under §404:

> Because of the wetland elevation and the relatively steep terrain, an alternative available to the applicant is the construction of a permanent drainage system within all of the wetlands which would effectively remove the near surface water on which the wetlands rely. The applicant has the ability to construct such a drainage system so as to avoid the discharge of dredged or fill material into the surrounding waters or wetlands and avoid the requirement of a Department of the Army permit. It is anticipated that, within a few months, probably one growing season, the existing wetlands would be permanently altered to the extent that they would cease to qualify as "waters of the United States" under the jurisdiction of the Corps of Engineers pursuant to Section 404 of the Clean Water Act.

Even when a discharge or dredged or fill material is involved, the wetlands conversion may be exempted from permit review because it involves an isolated wetland which does not meet the "interstate commerce test" for classification as "waters of the United States," or because it qualifies for a Nationwide Permit 26 for isolated wetlands and wetlands above the headwaters of a river or stream or for some other general permit. Furthermore, the conversion activity may be considered exempted from the permit requirement, even though the §404(f)(1) exemptions do not apply where conversion activity brings an area into a new use. See, OTA Report at 110. The USDA observed in its EA on the Swampbuster program:

> "The effectiveness of this program [404] in restricting wetland losses, especially the loss of small wetlands areas

> to agriculture, is limited because drainage as such is not regulated and because general permits authorizing discharges in small, isolated bodies of water are used. This permit program has been in effect since the early 1970's and the data on wetlands losses to agriculture between that time and the present point to its inability to control them."
>
> USDA EA at 4.

The Swampbuster Provision of the 1985 Food Security Act Does Not Adequately Protect Wetlands from Agricultural Conversion.

Swampbuster Limitations as a Wetlands Protection Law

Swampbuster does not prohibit wetland destruction; Swampbuster simply provides that the federal government will not continue to extend a broad range of federal farm subsidies to a producer who drains, fills, or otherwise manipulates a wetland and plants an agricultural commodity on that converted wetland.

As a wetlands protection statute, Swampbuster has several critical limitations. First, it does not penalize a farmer for draining or otherwise manipulating a wetland. Only in a year when a producer plants a commodity, i.e., a crop produced by annual tilling, does the producer risk losing benefits. Consequently, a producer can drain a wetland and decide from year to year whether to plant an annual crop and risk loss of farm benefits. In those years in which the producer wants to ensure receipt of benefits, he can either forego planting in the converted wetland, or plant a perennial crop there.

Another fundamental limitation is that Swampbuster only discourages farmers who participate in federal farm programs. Therefore, those farm operations which do not produce crops with commodity price supports or rely on other federally-subsidized loan and insurance programs, can ignore Swampbuster altogether. Similarly, as crop prices rise or farm subsidies are cut in the future, farmers will have less to lose by cropping converted wetlands in violation of Swampbuster.

Finally, Congress enacted certain exemptions to Swampbuster which further limit its effectiveness in reducing wetland conversion. The most significant exemption is that for wetland conversion which "commenced" prior to passage of the Food Security Act (FSA) in December, 1985. If a producer actually began "moving dirt," or committed significant funds for conversion through a contract or purchase of conversion supplies, prior to December 23, 1985, the wetlands converted through that activity or investment can continue to be cropped without triggering swampbuster sanctions.

Other exemptions which can limit Swampbuster effectiveness are the "third party" exemption, which immunizes a producer who crops a wetland converted by activity beyond his control, and the "minimal effect" exemption, which permits minor wetland conversion activity which will have only a deminimus effect on wetland function. In general, we believe a strictly enforced Swampbuster law can make wetland conversion more costly, and thus discourage some wetland loss. However, the greatest contribution of Swampbuster to wetlands conservation is probably to ensure greater consistency between federal wetlands protection policy and programs on the one hand, and federal farm and flood control programs on the other.

Swampbuster Implementation Has Been Poor.

The National Wildlife Federation has been actively monitoring the implementation of Swampbuster since its enactment in 1985. We believe the implementation record developed over the three full years since enactment is appropriate for review at this time. The record shows that though Swampbuster may indeed be a significant disincentive for agricultural drainage, implementation of the Act is dismal. Over the last three years, NWF's Prairie Wetlands Resource Center has submitted literally hundreds of Freedom of Information Act requests to ASCS county committees in the prairie pothole region of North Dakota, South Dakota and Minnesota. The information we received through these requests is disheartening - farmers who drained wetlands were rarely found in violation and their activities were often exempted entirely from the legislation. In case after case, ASCS county committees misconstrued, misapplied or ignored the Swampbuster legislation in order to excuse farmers for wetland drainage activity. Although the FWS alone reported 346 potential Swampbuster violations in North Dakota, South Dakota and Minnesota during the years 1987-1988 (personal correspondence, FWS), to our knowledge only three farmers lost their agricultural subsidies.

The most frequently used method of circumventing Swampbuster has been application of the commenced exemption. The ASCS county committees have frequently granted exemptions which were unjustified by the regulations and in some cases in direct defiance of an ASCS Deputy Administrator's ruling. For example, in April of 1987, the Bottineau County, North Dakota, ASCS Committee granted Bottineau County Water Resource District a commenced determination for White Spur/Stone Creek drainage project affecting over 6,000 acres of prairie wetlands. In April of the same year, ASCS Deputy Administrator reversed the exemption. In September, despite direct instructions from ASCS Deputy Administrator in Washington, DC, the rogue Bottineau County Committee reconsidered the Water

Resource District request and granted a commenced determination. Wetlands conversion in the White Spur\Stone Creek area for production of agricultural commodities then ensued, in direct violation of Swampbuster. To rectify this situation, the NWF filed litigation on April 20, 1989. See Attachment A.

According to its own figures, the ASCS has granted over 80 percent of the 810 requests for commenced conversion exemptions in North Dakota, South Dakota, and Minnesota during the years 1987 and 1988. NWF's Prairie Wetlands Resource Center, utilizing an informal appeals process, has requested the reversal of five erroneous Swampbuster decisions in North Dakota and Minnesota. These individual and project exemptions affect the fate of close to 10,000 acres of wetlands. ASCS continues to delay the final decisions in these cases, and that delay is often used to the advantage of drainage proponents. If it is ultimately determined that the project or individual violates Swampbuster, the drainage proponents claim that they acted in reasonable reliance on the county's erroneous decision and that the drainage should therefore be exempted from Swampbuster.

A case in point is the exemption granted to five large drainage projects in Wells County, North Dakota. The Prairie Wetlands Resource Center informally appealed the exemptions on August 15, 1988. In November, the Center received acknowledgement that the exemptions were improperly granted and advised us that they would be reversed. However, as of this date, ASCS has not notified any of the almost 300 producers that their exemption was invalid. By failing to notify the producers in Wells County, ASCS has seriously jeopardized the fate of over 5,400 acres of wetlands. As of April of this year, over nine months after the National Wildlife Federation appeal, the fate of the Wells County wetlands has not been ultimately decided.

Even when ASCS finds a clear violation of Swampbuster, the agency has exempted parties from penalty. In the case of Minnesota's Yellow Medicine River Watershed District's Ditch 18, the ASCS in Minnesota found that the project had commenced before the enactment of the FSA, and was therefore not subject to the financial disincentives of Swampbuster. NWF filed an informal appeal with the ASCS because the prerequisites to a commenced conversion exemption had not been met: not even the preliminary engineering plan for the proposed project had been completed prior to December 23, 1985, and there had been no work towards installation of the ditch, no construction contract, and no purchase of materials prior to the enactment of Swampbuster.

The ASCS Deputy Administrator of State and County Operations reversed the exemption. However, the producers in the assessment area appealed the ASCS determination. That appeal is heard by a different and independent branch of the ASCS than that which considers the informal, non-producers' appeals. Thus, the ASCS not only expends a tremendous amount of time and energy duplicating its own efforts, but the ASCS Administrator may be confronted with conflicting recommendations from his staff.

Moreover, the hearing is unfairly one-sided. Although the National Wildlife Federation brought Ditch 18 to the attention of the ASCS in Washington D.C., ASCS policy prohibits non-producers from participating in the hearing without the consent of the producer. Predictably, we were not present when the Ditch 18 proponents stated their case.

The final decision on Ditch 18 was not reached until March 30, 1989. Close to two years after the NWF appeal. The ASCS decision again favored the actions of the producer. Though affirming that Ditch 18 was not eligible for a commenced determination, ASCS granted relief to those producers who took action based on the erroneous decision of the Minnesota State Committee. (Attachment B).

On a national scale, a close analysis of the ASCS Cumulative Data Reports on Swampbuster implementation demonstrate that these reports are inaccurate, potentially deceptive, and that Swampbuster is not being vigorously implemented. According to the January/February 1989 report (Attachment C), 345 producers have been determined ineligible for program benefits as a result of Swampbuster non-compliance. However, 337 of these producers have chosen to appeal their ineligibility. Of the cases appealed, ASCS has sided to the detriment of the wetland resource in 206 or 61% of the cases. Seventy-one or 21% of the appeals have been denied. Sixty or 18% of the appeals are pending. If one applies the percentage of approval to those cases pending, 37 additional cases will side with the producer. Thus, in the three full years since enactment of the FSA, only 94 individuals will ultimately be found ineligible for program benefits.

Even those 71 producers which ASCS claims have been conclusively found ineligible for program benefits may not ultimately have their payments withheld. Many of these producers have requested Swampbuster exemptions or wetland redeterminations which are not treated as appeals in the cumulative data reports and are not reflected in the number of producers determined ineligible for program benefits. This comparison is easily substantiated by comparing appeals not approved and the dollar amount withheld. (Attachment D). For example, in October of 1988, 56 individuals were determined ineligible for benefits totalling $781,166.02. However, in the November\December cumulative data report even though the number of individuals found ineligible for program benefits increased to 87, only $395,017.05 was withheld. Significantly, the dollar amount has decreased by $386,148.97 (49%).

Of the 71 producers who seem to have been conclusively determined ineligible for program benefits, 45 (61%) reside in Minnesota. FWS estimates that less than 10 (22%) of the non-complying producers in Minnesota have been conclusively withheld benefits. The remaining have requested some sort of exemption or wetland redetermination to excuse their drainage activity. This is substantiated by a comparison of appeals not approved for the state of Minnesota. (Attachment E). In the November/December cumulative data reports, ASCS indicated 61 appeals not approved. However, in the ASCS cumulative data report for January\February 1989, only 45 appeals are indicated not approved. This difference of 16 (26%) indicates ASCS has granted additional relief to producers through exemptions or application for exemption from November\December to January\February. At this rate over a period of the next few months, it can be estimated that only a handful of individuals will be found conclusively in violation of Swampbuster. If Minnesota is characteristic of the rest of the country, then it is probable that less than 15 individuals in the entire United States will actually lose benefits due to wetland conversions to agricultural production which have occurred since the enactment of Swampbuster.

In summary, Swampbuster can only discourage wetland conversion to agriculture, not prohibit it. In addition it is only effective with those agricultural producers who rely heavily on commodity program subsidies. Even in those situations in which Swampbuster could be a strong deterrent to wetlands conversion to crop production, it has not been due to poor implementation, particularly on the part of ASCS county and state committees. Swampbuster, as currently written and implemented, will not stop the conversion of wetlands to agriculture.

FmHA Has Failed to Exercise its Authority to Protect Agricultural Wetlands through Conservation Easements.

While the placement of conservation easements on agricultural lands subject to Farmers' Home Administration (FmHA) loans cannot protect all wetlands subject to agricultural conversion, FmHA has had a tremendous opportunity to protect many wetlands without infringing on private property rights and without great expense to the government. Yet the agency has failed to capitalize on this opportunity. Under the FSA, FmHA has the authority to "write down" the debt of agricultural producers in exchange for conservation easements protecting wetlands on their land. Section 1318, P.L. 99-198. However, FmHA loan servicing regulations do not actively encourage the exchange of debt write down for conservation easements, and few agricultural producers are believed to have actually used this debt restructure option.

FmHA also has the authority, indeed the *mandate*, to put conservation easements on agricultural lands that have been returned to FmHA inventory due to delinquent debt, where such lands include wetlands and floodplains. Executive Orders 11988 and 11990; Section1314, P.L. 99-198. FmHA also has the authority to transfer inventory lands with wetlands in fee title to federal or state conservation agencies for wetland conservation. Section 616, P.L. 100-233.

Again, FmHA appears to be dragging its feet in exercising this authority. There are approximately 1.5 million acres (5100 tracts) of land in FmHA inventory, of which FWS and states have requested conservation easements on 100,000 to 150,000 acres (1200 tracts). Only about 100 of these requests have been approved and finalized. The vast majority of wetland acres covered by these requests are still pending within FmHA. Several requests by conservation agencies for the transfer of inventory lands with wetlands have been rejected by FmHA. It is estimated that almost one half million wetland acres could be protected from agricultural conversion if FmHA would vigorously exercise its conservation easement and inventory land transfer authorities.

The Conservation Reserve Program Does Not Provide Long-term Protection to Wetlands.

The Conservation Reserve Program (CRP) established in the FSA pays farmers to retire from agricultural production highly erodible and other environmentally sensitive lands, including wetlands. Lands must remain in the CRP for 10 years. The CRP can be used to protect wetlands both by providing opportunities to restore converted or cropped wetlands included within highly erodible fields enrolled in the reserve, or by including cropped wetlands themselves in the CRP under new eligibility rules promulgated in January, 1989. An estimated 200,000 to 300,000 wetland acres were bid for inclusion in the CRP in the first sign up opportunity for wetlands enrollment which occurred in February. Not all of these acres will actually be enrolled.

While CRP could potentially protect many of the most vulnerable wetlands from agricultural conversion and restore previously converted and degraded wetlands, such a program would be expensive and would provide only temporary protection. The average annual rental rate for CRP acres is $48.50 per acre. Based on this cost alone, the cost of protecting 5 million acres of wetlands from agricultural conversion for 10 years would be almost $2.5 billion. While this cost would be offset by savings in agricultural subsidy outlays, it also does not include any provision for cost sharing to restore or maintain wetlands, or funds to manage or enforce CRP contracts. Most importantly, this price tag does not buy permanent wetland protection.

The Water Bank Program Provides Only Localized, Temporary Wetlands Protection.

The Water Bank Program, administered by the ASCS, focuses on protecting wetlands for migratory bird habitat. The program operates primarily in the prairie pothole region of Minnesota, North Dakota, and South Dakota. Like CRP, Water Bank pays farmers annual rental payments in exchange for 10 year agreements to conserve wetlands on their property. Since about 1982, annual appropriations for Water Bank have remained at about $8 million, providing for the protection of about 167,000 wetland acres at any one time. DOI Report at 88; National Fish and Wildlife Foundation, Federal Agency Needs Assessment Fiscal Year 1990, USDA at 14; OTA Report at 73-74.

The FWS Wetlands Acquisition Program Protects Considerable Wetland Acreage, But Cannot Stop the Conversion of Wetlands to Agriculture.

FWS has an ongoing wetlands acquisition program authorized by the Migratory Bird Conservation Act, Fish and Wildlife Act of 1956, Endangered Species Act, and Fish and Wildlife Coordination Act. Funding for this acquisition is authorized under the Migratory Bird Hunting and Conservation Stamp Act (Duck Stamp Act), the Wetlands Loan Act, and the Land and Water Conservation Act. FWS proposed acquisition plans indicate an intent to acquire approximately 60,000 wetland acres in FY 1990.

The North American Waterfowl Plan is Also an Ambitious Wetland Conservation Effort, But Cannot be Relied Upon to Halt the Agricultural Conversion of Wetlands.

The North American Waterfowl Management Plan (NAWMP) is an ambitious partnership involving the U.S. government, the Canadian government, the states, and the private sector in protecting, restoring, and managing wetlands to restore North America's waterfowl populations. Wetlands protection is an important component of the Plan, but FWS is presently using its land acquisition and FSA authorities discussed above to implement the Plan. Consequently, at present the NAWMP is not providing substantial additional wetlands protection from agricultural conversion. While the NAWMP has the potential to protect a substantial amount of wetlands from conversion through its proposed combination of acquisition, management, restoration, economic incentives, and education, Plan implementation alone will not halt the conversion of wetlands to agriculture.

In conclusion, the CWA §404 program and Swampbuster programs, as currently implemented, can at best slow the rate of agricultural wetland conversions, but will not protect the remaining wetlands subject to agricultural conversion. Existing conservation easement and fee title acquisition programs, particularly as presently implemented and funded, are not adequate to protect even the 5-10 million most vulnerable wetland acres. An optimistic projection might be that we could protect about 2 million wetland acres from agricultural conversion over the next ten years through the CRP, Water Bank, FmHA easement authorities, and the FWS land acquisition program.

TO STOP THE CONVERSION OF WETLANDS TO AGRICULTURE WILL REQUIRE A COMBINATION OF REGULATORY CONTROLS, EASEMENT ACQUISITION, AND RESTORATION.

As the National Wetlands Policy Forum recognized, putting a stop to wetland losses in this country will require a combination of strategies which include, in particular:

1. Providing better incentives to private wetland owners to protect wetlands permanently for the public benefit, including the creation of an Agricultural Wetlands Reserve Program. Forum Report at 31.

2. Reducing wetlands losses resulting from government programs, including the vigorous and consistent implementation of Swampbuster to eliminate government inducements for the conversion of wetlands to agriculture. Forum Report at 53.

3. Instituting more effective and even-handed regulatory programs to ensure that no types of wetland conversions--including those resulting from drainage, excavation, the destruction of vegetation, and other causes--are allowed to escape unreviewed because of the peculiarities in the wetlands protection laws and regulations. Forum Report at 3-4.

4. Fully mitigate for unavoidable wetland losses and begin programs for wetlands restoration, including an Agricultural Wetlands Reserve Program to fund the restoration of former wetlands converted to agriculture. Forum Report at 3-4.

These Forum strategies apply to the agricultural conversion of wetlands just as they do to wetland losses as a whole. While much can be done to implement these strategies without new legislation, new legislation is needed to stop the conversion of wetlands to agriculture.

Economic Incentives for Private Stewardship

With respect to better economic incentives for private stewardship, legislative changes must be made to either modify and expand existing easement and fee title acquisition programs or to create a new wetlands reserve that will compensate owners of wetlands on agricultural lands to protect wetlands *permanently.* Permanent easements rather than 10 year contracts must be employed. In addition, new legislation is needed to authorize and fund the restoration and subsequent protection of former agricultural wetlands . Forum Report at 31. The Forum's National Wetlands Reserve Program and Water Bank recommendations should be considered. Senator Fowler's proposed Farm Conservation and Water Protection Act (S. 970) and Senator Lugar's proposed Conservation Enhancement and Improvement Act (S. 1063) offer legislation consistent with these concepts. Clearly, modifying and expanding wetland easement programs on agricultural lands is a measure which can and should be addressed in the 1990 Farm Bill.

Strengthening of Swampbuster

Vigorous and consistent implementation of Swampbuster to eliminate incentives for agricultural conversion of wetlands is also important. However, in order to achieve this, we believe legislative changes are in order. First, Swampbuster may never discourage wetlands conversion effectively as long as the ASCS county committees are the primary administrators of the program. We believe that FWS, which has an active consultation role in Swampbuster implementation, should play a primary role in determining Swampbuster compliance. The county committees' inability to properly administer Swampbuster is a result of the following characteristics:

- **Agency bias.** The ASCS was created to assist farmers. Its employees are knowledgeable about agriculture and sympathetic to the agricultural community. County committees are reluctant to penalize farmers for the sake of poorly understood environmental values.

- **Personal bias.** To be eligible to become a committee member, an individual must be a resident farmer of the county in which he is to serve. As a result, county committee members are frequently in the difficult position of rendering a decision which may harm friends or neighbors. Moreover, being members of the regulated community themselves, committee persons are often skeptical about strict Swampbuster sanctions.

- **Lack of expertise in wetland issues.** The ASCS has the responsibility of spot checking farms to ensure Swampbuster compliance. Unfortunately, ASCS personnel have little expertise in recognizing wetlands or in determining the scope and effect of drainage systems.

- **Lack of accountability.** County committee members are not professional agency staff. They are in office for three years and earn less than $75 per month for their services. Most of the committee members are full-time farmers. As a result, committee members have little professional or financial incentive to enforce laws or regulations with which they disagree.

In contrast to the ASCS, the FWS is ideally situated to determine Swampbuster compliance . FWS is already actively involved in Swampbuster implementation and its personnel are knowledgeable about wetland protection. Most importantly, the FWS does not suffer from the biases which characterize the ASCS county committees. FWS could be expected to impartially implement Swampbuster according to the law and the regulations. It should be emphasized that giving FWS responsibility for Swampbuster compliance determinations would not necessarily involve drastic procedural changes, and in many cases would be simpler and more efficient than it is currently.

At a minimum, the ASCS and SCS should be required to have FWS concurrence on each Swampbuster exemption determination. This authority would ensure that needed wetlands and wildlife expertise is brought to bear in monitoring important decisions affecting the fate of wetlands. This role for the FWS would also lend needed outside objectivity to Swampbuster decisions.

A second important change is to make producers ineligible for benefits upon wetland conversion, regardless of whether a commodity crop is planted. The cropping requirement substantially diminishes the producer's incentive to preserve wetlands and also makes Swampbuster more difficult to monitor in the field. While ASCS, SCS, or FWS field personnel are likely to observe and report new drainage activity, they simply do not have the resources to systematically review previously converted wetlands to determine whether they are being planted to a commodity crop from year to year.

Furthermore, in light of the public resources at stake, Swampbuster should encourage and facilitate the participation of environmental organizations and concerned citizens. The legislation should establish and encourage the use of an effective procedure for reporting, recording, and following up on potential

Swampbuster violations. In addition, the FSA should be clarified to expressly provide that a formal administrative appeal is available to non-producers as well as producers denied benefits. While the present statutory language seems to provide for such an appeal, the USDA regulations limit the right of appeal to producers. As a result, only a decision withholding subsidies and favoring wetlands protection can be "second-guessed" and reversed through the formal appeals process. There is no formal means of challenging a decision which favors the producer to the detriment of a wetland. The administering agencies must be held accountable to the public as well as the producer.

NWF and the Izaak Walton League strongly support a strong Swampbuster program. We strongly oppose any efforts to *weaken* Swampbuster by exempting wetlands which have been cropped in past years and by giving ASCS county committees broad discretion to reduce or waive the withholding of subsidy payments for Swampbuster violations. Such efforts fly in the face of the President's No Net Loss of Wetlands policy and make little sense from a fiscal standpoint. Swampbuster was a product of the 1985 Farm Bill and should be strengthened in the 1990 Farm Bill.

Expanding the Scope of the Clean Water Act §404 Permit Program

Finally, Section 404 of the Clean Water Act should be amended to expressly state a national wetlands policy and goal of no overall net loss of wetlands and a long term increase in our wetlands base, and to clarify that the draining, dredging, excavating, inundating, and clearing of wetlands are covered by §404 to ensure that wetlands conversions to agriculture, like other wetlands conversions, are subject to permit review. While ongoing agricultural, silvicultural, and ranching activities would continue to be exempt from regulation, the conversion of wetlands to new land uses would require a §404 permit. Although this recommendation falls outside the framework of the 1990 Farm Bill, it is an important component of reversing this Nation's wetland losses and must not be overlooked by this Committee.

Through this combination of strategies, coupled with increased wetlands research, planning, and public education efforts recommended by the Forum and others, we can stop the loss of our Nation's wetlands and begin to restore some of our past losses. Thank you, Mr. Chairman, for the opportunity to appear before the Committee today to provide these comments.

(Attachments are held in the committee files.)

TESTIMONY OF PROFESSOR JOAN I. NASSAUER, ASLA
ON BEHALF OF THE
AMERICAN SOCIETY OF LANDSCAPE ARCHITECTS
BEFORE THE HOUSE AGRICULTURE COMMITTEE
1990 FARM BILL
JULY 13,1989

Mr. Chairman, my name is Joan Nassauer. I am a member of the American Society of Landscape Architects (ASLA) and a professor at the University of Minnesota Department of Landscape Architecture. For the past 15 years, I have investigated rural people's perceptions and use of their landscapes, and in my work as a landscape architect, I have assisted local people in analyzing and planning their own rural landscapes. In addition I served on the Founding Council for the United States section of the International Association of Landscape Ecologies were I have been internationally recognized for my landscape ecology research. I thank you for giving me the opportunity to appear before you today to present ASLA's position on the proposed 1990 Farm Bill.

The earliest landscape architects in the United States were deeply committed to the rural landscape as a resource and design entity. Adonijah S, Welch - a landscape gardener and first President of Iowa State

University-was keenly interested in how the rural landscape could be manipulated for its aesthetic, as well as productive quality.

The American Society of Landscape Architects policy on rural landscape states:

> The American Society of Landscape Architects recognizes rural landscape as a complex of ecological, economic and cultural qualities on which human and other life forms are dependent. The Society considers the continued loss and misuse of the rural landscape unwise and threatening to present and future generations.
>
> The Society is committed to the advancement of the public's awareness, understanding and appreciation of the rural landscape as a limited resource which is vital to the health, safety and welfare of the earth's lifeforms.
>
> The Society affirms its belief that the essential qualities of rural landscape can be conserved, while accommodating human needs, through sensitive integration of human land uses with natural systems.
>
> The Society encourages the application of sound principles and practices of wise land use planning, design and management to ensure conservation of the rural landscape for the benefit of future generations.

Mr. Chairman, my testimony focuses on the aesthetic benefits of agricultural land to farmers and surrounding communities. I am talking about aesthetic quality in its broadest sense. Both urban and rural people take pleasure and satisfaction in how the rural landscape looks -- sounds -- smells and even how it feels to move through wide open spaces. That pleasure and satisfaction comes from the aesthetic quality of rural landscapes. The rural landscape offers something different, and in a way, something more than the scenic views we associate with America's wilderness areas and parks. While many of us enjoy the scenic quality of rural landscape: rolling hills, forests and fields, meandering streams, we also enjoy a quality that specially characterizes the countryside: the appearance of good stewardship. My own research suggests and the experience of colleagues around the country reinforces that people like the look of rural landscapes that are well-cared-for. So, rural lands can be attractive because they are scenic or because they show good stewardship. The 1990 farm bill could 1) protect scenic rural landscapes, and 2) create more attractive rural landscapes by making American farmland a more vivid demonstration of good stewardship.

The failure to address aesthetic conservation more comprehensively in the 1985 Farm Bill was a real loss of opportunity. As management prescriptions were developed for the more than 30 million acres in the Conservation Reserve and potential easements on FmHA land, aesthetics could have been considered at the same time as soil and water habitat conservation. CRP land could be not only ecologically sound but attractive in a way that helps people appreciate its ecological quality. Our hope is that this opportunity will not be lost as the 1990 Farm Bill is developed and implemented.

Including aesthetic quality as a goal of the 1990 farm bill directly benefits other components of the bill. It can enhance farmer participation in the conservation programs, support rural economic development, help maintain open space in close proximity to urban areas, and will enhance the ecological diversity of rural landscape.

Farmer Participation in Conservation Programs

Aesthetics effect farmer participation in CRP program in two ways. First, farmers care about the way their land looks. Farmers are more likely to participate in CRP if the conservation measures are attractive and enhance the look of their land. In contrast, the look of CRP cover and habitat restoration as it has been typically installed under FSA 1985, can look neglected, mistaken for weeds or poor care. Careful design of conservation measures (we explore several design techniques in a two minute video available through ASLA) will be more likely to give the farmer and his neighbors something they can be proud of.

Second, aesthetics is an important reason for targeting conservation to types of lands that were not eligible for the 1985 CRP and for allowing economic use including cropping on some conservation land. Scenic rural landscapes very often have been cropped only selectively, respecting constraints posed by topography and soils. Consequently, land with no cropping history but with high aesthetic quality should be eligible for aesthetic conservation. In addition, land that looks well-cared-for may very well be cropped. For example, stripcropped fields are recognized among the most beautiful landscapes in Minnesota, where I live. Land where conservation measures appropriate to soil type have been implemented and where those conservation measures are highly noticeable, so that people can appreciate the conservation that is going on, should also be eligible for aesthetic conservation.

Rural Economic Development

Aesthetic conservation is necessary for tourism, a cornerstone of rural economic development. We must realize that rural tourism can take many forms. Driving to a countryside produce stand can be motivated as much by the experience of getting there and being in the countryside as by the need for vegetables. more direct tourism includes hiking, biking, skiing,snowmobiling, boating, hunting, fishing, and even a growing agro-leisure industry with bed-and breakfast and guest farm establishments. This kind of economic development allows rural areas to maintain their essential character while introducing a new economic pursuit. It helps people stay on their farms and in their towns. Notable examples of the economic development potential of rural aesthetic quality are Napa County, California, where tourism accounted fro $135 million of income in 1984 and Lancaster County, Pennsylvania, where tourism accounted for $416 million of income in 1987.

Rural landscapes are also highly efficient settings for expanding the recreational resources of the nation. Linear recreation systems (roads where people drive for pleasure, trails, streams) act as a network through the countryside. The desirability of the system depends on attractive views to rural landscapes. Most of this land is privately owned, yet we all enjoy the privilege of looking at it. Aesthetic conservation would merely pragmatically ensure our continued enjoyment of this benefit, and the continued attractiveness of our extensive public linear recreation system.

Maintaining open space

Aesthetic conservation of rural areas makes nearby cities more desirable places to live. The nations of Northern Europe, where people have long recognized the necessary, complementary relationship between urban and rural landscapes, have used the skills of landscape architects to maintain the aesthetic and ecological character of their rural landscapes for decades (Westmacott 1974 1984, Bruns and Luz 1989).

In the United states, the phrase "open space" seems to be something of a surrogate for aesthetic concerns in state and local farmland legislation and ordinances. It is no coincidence that while all 50 states have enacted some form of farmland protection legislation, those that explicitly address the open space benefits of farmland are clustered in the most heavily urbanized area of the country -- New England and California.

If scenic qualities of rural landscapes are protected and more attractive conservation landscapes are created (by designing conservation lands so that good stewardship is immediately noticeable and cannot be mistaken for neglect) by the 1990 Farm Bill, the open space resources of urban areas will be protected and extended at the same time. Clearly, urban and rural people share an interest in farmland not only when they shop for groceries, but also when they enjoy the wide open landscape. We must protect farmland and we must protect its aesthetic quality if it is to serve as an open space resource.

Ecological Diversity

As we face the uncertain climatic effects of global warming and the loss of the stratospheric ozone layer, we recognize the limited security of geographically isolated ecological preserves. One important response is to extend the geographic range of these preserves in the form of parks, wilderness, and research sites. But equally important is to realize the potential for ecological diversity within the fabric of agricultural land use.

Aesthetic conservation would result in landcover patterns that support ecological integration. Both aesthetics and biology benefit from a varied landcover pattern. Species protection and dispersal in the face of climatic change requires a varied landcover pattern, not necessarily wilderness but a pattern that includes a variety of land management regimes. In the case of aesthetics, a boldly varied pattern is attractive in itself. Coupled with the purpose of good stewardship, such landscapes are highly attractive. The unglaciated agricultural landscape of Southern Wisconsin and Northern Illinois demonstrate this type of varied pattern and good stewardship.

Both concepts suggest that we should extend the purview of good stewardship beyond lands that have been previously cropped and include lands that are currently cropped. There must be multiple alternatives for accomplishing conservation.

Implementation

Implementation devices for aesthetic conservation concept could vary widely. They could be incorporated with CRP and FmHA easement components of FSA 1985. Or particular regions, identified for their scenic quality, economic development needs, or proximity to urban areas could be selected as eligible for aesthetic conservation.

Certainly, conservation lands must be managed in an interdisciplinary framework, including the aesthetic orientation of landscape architecture along with the crucial professional insights of wildlife biologists, soil scientists, and agricultural engineers, to protect and improve the full long-term productivity of the landscape. This interdisciplinary mix is standard in most of Europe, where people have had to confront the finite nature of rural land resources.

The Goal

Our primary goal should be to enlarge the purpose of land management incentives in the 1990 Farm Bill so that greater benefits are received; benefits of stronger rural economies, more complete respect for farmers, pride in their land and their farming, healthier urban regions, and more options for conservation management -- all increasing the ecological diversity and aesthetic quality of the rural landscape.

Mr. Chairman, it has been a great pleasure to appear before you today. I would be happy to respond to any questions that the committee may have now or in the future.

Aesthetic Objectives for Agricultural Policy

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Aesthetic Effects of Agricultural Policy

1985 Food Security Act. While the 1985 Food Security Act (FSA) was revolutionary in pairing production control strategies and broad conservation intentions, its effect in changing the appearance of rural America has gone largely unexamined. The look of the land may be critical to farmers' decisions to participate in key provisions of the act and to economic development benefits realized by rural communities. The potential to intentionally enhance the visual appeal of the landscape should not be overlooked as conservation provisions of the 1990 Farm Bill are developed.

The visible landscape effects of agricultural policy are most appropriately labelled aesthetic effects. The attractiveness of the rural landscape is an economic externality, but it is integral to daily life, underpinning economic decisions about the land. Agricultural policy affects landscape aesthetics in much the same way now as it affected habitat and water conservation prior to the 1985 FSA. Aesthetic effects result from current policy, but to date the policy has not been directed toward manipulating those effects.

Program Participation. Nonetheless, aesthetic effects, unarticulated or cloaked by other labels, play into agricultural land management and policy decisions. No one who has worked closely with farmers will be surprised to learn that some farm management decisions are made not for economic reasons but to make the farm look attractive. Herbicide may be applied to achieve a weed-free appearance well past the margin of increased crop production. Or highly visible conservation practices like stripcropping or push-up terraces may be installed in part because they look good and show that the farmer cares about conservation. Conversely, farmers may be reluctant to adopt conservation practices that contradict aesthetic norms for attractive agricultural land. Consider initial reactions to conservation tillage. Anecdotal reports suggest that the unkempt appearance of perennial cover, at least in comparison with neat, straight rows of corn, may influence farmers' decisions to participate in CRP as well.

Economic Development. Not only farmers respond to the look of rural land. Aesthetics directs travel and recreation decisions of both rural and urban Americans. While the need for food and fiber and maintaining the family farm are key points in the argument to protect agricultural resources, the immediate value of agricultural landscapes to urban dwellers is their aesthetic appeal. Not coincidentally, those states that identify "open space" benefits of farmland in their farmland protection legislation are clustered within the most heavily urbanized regions of the country: California and New England. While "open space" can be interpreted as a surrogate for aesthetic concerns, Maine's state farmland protection law explicitly addresses scenic value.

To the 97% of Americans who are not farmers, the rural landscape is the primary setting for the most popular recreational activity in the country, driving for pleasure (President's Commission on Americans Outdoors 1987), as well as for numerous other recreational pursuits. While the rural economic benefits of hunting and fishing are supported by habitat protection and creation in FSA 1985, these activities are only part of the recreational mix that brings urban residents to rural areas. The aesthetic quality of the landscape is a fundamental component. City people don't drive to U-pick operations or roadside produce stands only to buy fruit and vegetables, they drive to the country to be in the countryside. The increasing popularity of bed-and-breakfast enterprises and recreational trails, where the public owns only a path through a privately-held countryside, are further evidence of the economic development potential of rural landscapes.

A Basis for Developing Aesthetic Objectives

What is the aesthetic quality that farmers try to create and that we all enjoy? The easiest answer is to claim that beauty is in the eye of the beholder and conclude that aesthetics is not a policy issue. Yet ample precedents exist for federal policy on landscape aesthetics, beginning with the Highway Beautification Act (1965) and clearly stated in the National Environmental Policy Act (1969), which "assure[s] for all Americans aesthetically and culturally pleasing surroundings".

In fact, people have widely shared ideas about what makes landscapes beautiful. Beauty is a community-based concept (Eaton 1989), that is, people who have similar experiences (farmers, or people who live in a particular region) are likely to have similar ideas of landscape beauty. We can say a lot about what makes rural landscapes beautiful if we include people who are familiar with an area in the discussion.

Three Themes in Rural Landscape Aesthetics

My own investigations of rural Midwesterners' perceptions of landscape aesthetic quality suggest that there is ground for establishing rural aesthetic quality policy, and that aesthetics may be intimately bound to larger concepts of stewardship. In projects in Illinois and Minnesota (Nassauer and Westmacott 1987, Nassauer 1988a, 1988b, 1988c), rural residents were interviewed and asked to describe rural landscapes. In-depth interviews and content analysis of interview transcripts was the means of deriving aesthetic terms to describe the landscape, and the aesthetic terms became the factors upon which landscapes were analyzed.

The terms used to describe what made landscapes attractive or unattractive can be summarized by three dominant themes: scenic quality, neatness, and stewardship. Each of the three themes expresses aesthetic quality, but each takes a different form in the landscape. While terms that we might associate with traditional concepts of scenic quality (e.g., curved, expansive views, picturesque) were used to describe some landscapes or landscapes at particular times, neatness terms (e.g., no weeds, mown, well-kept) were used as frequently. Two types of stewardship terms were also frequently used: those describing naturalness (e.g., habitat, native), and those describing soil and water conservation (e.g., stripcropping, no erosion). When both types of stewardship terms are taken together, they were used with frequency about equal to that of either scenic quality or neatness terms (table 1).

The three aesthetic themes have some intrinsic differences that are important to aesthetic objectives for agricultural policy. While scenic quality is largely dependent upon geomorphological properties of the region (like steep slopes and stream corridors), which the farmer does not control, neatness and stewardship depend on the activities of the farmer. A further critical difference between neatness and stewardship is that neatness is intrinsically visible. Keeping things neat, the farmer shows that he works hard and takes good care of his farm. Stewardship may not always show, especially if one doesn't know what to look for. While the farmer who leaves a few weeds in his field or plants an entire field to perennial cover may be demonstrating care more profoundly than his neighbor who has weed-free rows of corn, his hard work and good care may not be apparent to his neighbors.

Scenic Quality. Of the three themes, scenic quality will be most immediately apparent to tourists, and relates most directly to economic development opportunities. Scenic quality is often apparent in landscapes that have a mix of lands suitable for cultivation and land that farmers might describe as "not meant to be farmed", too steep or too wet for farming. Where farming has respected limits imposed by natural features, introducing cultivation sparingly, the landscape is often scenic.

People interviewed in the Midwest described scenic beauty using terms like: curving roads, colorful leaves, expansive views, a skyline in the distance, sunsets, and being down in a valley. These terms coincide with widely shared western cultural conventions of landscape beauty. One needn't live in a region to recognize this kind of aesthetic quality. At the same time, farmers we interviewed recognized scenic quality in their own regions and saw it as distinct from the beauty of good, productive land. Describing an Illinois nature preserve seen in a slide, one farmer said:

If one likes wilderness, that's an example of it. Let it grow like that.

Another observed:

This is the type of place where people go to get away. I think of the North Woods.

Neatness. Neatness is the aesthetic theme traditionally associated with good farming. The fact that farmers have control over and responsibility for the neatness of their own land helps to explain why neatness looks attractive. Neatness is an intensely human form. By keeping their farmsteads and fields neat, farmers express a concern for their neighbors and the appearance of their neighborhood. Unlike scenic quality, neatness shows what the farmer has been doing, it reflects on the farmer.

Agricultural landscapes that people described as neat were characterized by straight rows, the absence of trees, the absence of weeds, and mown roadsides. A related but not identical concept is productivity. Productive fields were often described as neat, but other landscapes like roadsides or farmsteads also were attractive for their neatness. Farmsteads and rural residences described as neat were well-maintained (buildings recently painted, new or highly functional agricultural buildings); grass was mown; trees, shrubs, flowers, and often, fences and lawn ornaments were included on the site. Equipment was not left outside, any buildings not being used had been taken down. Interview participants suggested that a neat farmstead indicated that the farmland itself was well-cared for.

Stewardship. Stewardship is like neatness; it also reflects on the farmer. However, stewardship is not always noticeable (consider drip terraces). Many conservation practices demonstrate no visible control by the farmer. They may even be mistaken for neglect. No-till farming, wetland restoration, and the perennial cover of CRP are examples. Conservation practices that are immediately attractive, like stripcropping, create bold patterns. They demand attention and inspire curiosity--and they look controlled and neat. You can find stripcropping attractive because of its massive colorful stripes or because it looks neat, even if you don't understand why its there.

At the same time, wetlands and unmown roadsides exemplify natural areas described as attractive by some rural Midwesterners. More than one explained their preferences for natural-looking landscape features by referring to the ecological function of the features--for habitat or to control erosion, for example. Their appreciation of the beauty of good stewardship was akin to the ecological aesthetic that Aldo Leopold described (Callicott, 1983). It requires knowledge of the ecological processes represented by a landscape. A quote from an Illinois farmer looking at a slide of a natural area exemplifies the effect of knowledge:

That's pretty, but there are some dead trees. I used to dislike dead trees. It depends on if its part of a natural process.

Implications for Agricultural Policy

Each of the aesthetic themes has distinct policy implications. If the conservation reserve concept were implemented to target aesthetic conservation along with its habitat, water quality, and soil conservation objectives, it could be a credible rationale for rewarding "good farmers", those who did not build their crop base by cultivating on steep slopes or draining wetlands or by abandoning rotations on erodible soils. It could also be a rationale for introducing appropriate cultivation and conservation practices on some targeted portions of the Reserve. Where good stewardship is immediately apparent by the careful design of conservation practices, cropping can enhance aesthetic quality.

The scenic quality that tourists most appreciate often is the result of farming around outstanding natural features. Land that has never been cultivated or where cultivation has been long abandoned is an essential part of the landcover matrix that creates scenic quality. Enrolling this type of land in the Reserve would recognize wise land management decisions and protect a basis for local economic development. New England rural landscapes, rolling and laced with forestcover, come to mind.

Economic incentives may be paramount in farmers' decisions to participate in the Reserve, but designing Reserve parcels to look neat supports economic incentives. While it may be difficult to imagine a tidy wetland or meadow, several design strategies might be used to make it obvious that these lands are not neglected (Nassauer 1988c). For example, in Germany, where new fencerows and roadside perennial vegetation are being introduced, landscape architects have found that including flowering plants in the seed mix enhances public appreciation of the changed landscape (Brun and Luz, 1988). Fences, signs, and selective mowing also help to show that natural areas are not neglected. Special attention should be given to the view from the roadside.

Finally, where good stewardship is apparent, either because of careful design of natural looking conservation measures or because of the bold pattern of a conservation practice like stripcropping, the aesthetic value of good stewardship could be recognized by allowing limited cropping on some Reserve parcels. The bold landcover patterns that make stewardship noticeable require biological diversity. Managed for this pattern of diversity, conservation and cultivation may be compatible as well as beautiful. The dairy region of the upper Midwest and the great fallow strips of the Plains states exemplify this kind of beauty.

Certainly, the Conservation Reserve is not the only instrument for incorporating aesthetic objectives in agricultural policy. In the 1985 FSA, easements enabled under Title 13 also have great potential for incorporating aesthetics. State farmland protection law in several states clearly acknowledges that rural landscapes are not only used by people but also enjoyed by them. Such legislation is only pragmatic in protecting the public benefit and economic development opportunities that depend upon the look of rural landscapes.

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Table 1. Rank of thematic descriptors and related aesthetic terms used by Minnesota research participants

Thematic descriptor	n of 706 landscapes sampled	Related aesthetic terms
Scenic	307	Season, beautiful, color, curved road, expansive, hills, lake, stream, pond, lights at night, outcrops, overlooking, peaceful, picturesque, pleasant, pretty, river valley, secluded, skyline of the city in the distance, sunset clouds, the sky. Houses loom above, houses not far enough away from each other houses stand out too much, houses too close together, you can see the houses, too formal, too much concrete, commercial development, too many houses or mobile homes, transmission lines.
Neatness	301	Clean, neat, put away, mown, new, no weeds, white. Cluttered, construction going on, junk, messy, weedy.
Naturalness	173	Development blends in, habitat, native vegetation, natural, trees, wildlife. Bare, flat, monotonous, no trees.
Care	152	Cared for, maintained, well-kept. Abandoned, neglected, no house on a farmstead site, not well-kept, old.
Conservation	138	Conservation, contour plowing, no erosion, pasture, stripcropping, terraces, windbreaks. All planted to corn, effluent from feedlots, poor water quality, erodible land plowed, erosion, no conservation practices being used, not a good job of farming, pastures overgrazed, plowing up the hills, runoff, slimy-looking water.
Yard care	137	Big yard, fences, flowers or shrubs, homes, landscaped, lawn ornaments or architectural details, trees in rows. No flowers, no shade, not landscaped, not mown.

TESTIMONY OF
JANE E. SHEY
DIRECTOR OF GOVERNMENT AFFAIRS
CORN REFINERS ASSOCIATION, INC.
HOUSE COMMITTEE ON AGRICULTURE
JULY 13, 1989

Thank you Mr. Chairman. I appreciate the opportunity to discuss with the Committee some thoughts on the 1985 Food Security Act and suggestions for the 1990 farm bill.

The Corn Refiners Association, Inc. is the national trade association representing the corn refining (wet milling) industry in the Unites States. Member companies are producers of sweeteners, starches, feeds, oil and alcohol from U.S. corn. Last year, our industry purchased and processed nearly a billion bushels of U.S. corn. A list of Association members is attached to my testimony.

Our industry takes a basic raw agricultural commodity and turns it into a variety of intermediate and finished food and industrial products of high value. In the process, the industry adds value to this raw commodity through the purchase of processing supplies, equipment, energy, transportation and packaging and through employment of many thousands of processing, marketing and managerial workers.

Today we would like to discuss the trade title of the 1990 farm bill. The Export Enhancement Program, the Targeted Export Assistance Program, commercial export credit guarantees and other export promotion programs were included in the 1985 Food Security Act to help the United States regain a share of the agricultural export market which had been lost to subsidized foreign competition. As the committee plans a trade title for the 1990 farm bill, we urge that similar export promotion programs be examined for high-value-added agricultural products.

Agriculture is a rapidly changing business. Just as a farmer needs to be aware of new technology and seed varieties, Congress and the Department of Agriculture must be aware of trends and demands in the world market.

The United States has always played a major role in world agricultural trade. Since World War II, we have served as a primary supplier of food to the world, especially bulk commodities. For example, in the 1970s, the U.S. controlled about 40 to 50 percent of the total wheat and wheat flour trade.

The value of bulk exports has declined in the 1980s. In 1981, U.S. bulk commodity exports were valued at $30 billion, but by 1987 their value had dropped to $16 billion. Future world demand for cereal grains is projected to grow at only two percent per year through the 1990s.

In contrast, during the 1970s and 1980s world trade in high-valued agricultural products grew dramatically. In 1982, the value of trade in HVPs surpassed the value of trade in low-valued agricultural products. Among the countries experiencing the fastest growth in imports of high-value agricultural products have been Japan, Australia, Italy, New Zealand and Turkey. European nations have dominated this market for many years. The food production and processing industries in the U.S. are as modern and competitive as those in Europe, and it is time for the U.S. to end this domination.

Because of programs of the 1985 Food Security Act the U.S. has become more competitive in the bulk commodity market. However, our market share of value-added exports continues to be low. In 1987, the U.S. accounted for 33 percent of world trade in bulk agricultural commodities, but only 7 percent of world trade in high-value products.

Other countries such as members of the European Community have fared much better through their intense promotion of high-valued products. In 1987, EC high-value agricultural exports were $16.5 billion, while similar U.S. exports were valued at only $6 billion. Through aggressive marketing and subsidizing exports of processed products, the EC has captured 50 percent of world trade in value-added agricultural products.

Increasing exports of valued-added agricultural products offers a valuable way to assist our national goals in rural development. When commodities are processed after leaving the farm, much of the work is carried out in the local community, which increases the ripple affect of agricultural production far beyond the local elevator and seed dealer. For every dollar of high-value farm products exported, another $4.20 is pumped into the economy in extra farm inputs, processing, transportation and other costs.

But, the benefits of value-added exports are not only in rural communities. In 1987, an estimated 903,000 jobs were generated by U.S. agricultural exports. Over a half a million of these jobs, nearly 60 percent of the total, were outside the farm sector.

Economic studies show there would be a tremendous economic benefit if our country could expand its value-added agriculture strategy. The Economic Research Service of the Department of Agriculture has estimated that the U.S. share of the global value-added market could be raised to 15 percent without any loss in our bulk exports. The study shows that this increase would add $50 billion to the nation's GNP, generate an additional one million jobs and add $2 billion to federal tax income. State and local tax income would also rise dramatically.

What can Congress do to help American agriculture, industry and labor take advantage of the benefits offered by value-added exports? We believe that there are several avenues that are worth pursuing:.

1) The Agriculture Committee may want to hold hearings on value-added exports, bringing in the expertise of government agencies, private industry, producer groups and labor unions.

2) Following the hearings, the suggestions of the various organizations could be incorporated into a "value-added agricultural" title for the 1990 farm bill.

3) The Agricultural Technical Advisory Committee which is being organized by the High Value Added Division of the Foreign Agriculture Service should conduct a study to determine the most effective government role in assisting private sector exports. The results of the study could be presented to Congress as a guideline for a strategy on value-added agriculture.

4) The committee should also explore the feasibility of a value-added Export Enhancement Program.

I would like to elaborate briefly on each of these suggestions:

The development of a value-added export strategy will take the cooperation of government and private industry as well as agriculture and labor concerns. It provides a forum for an interesting coalition that should provide economic benefits well beyond the agricultural sector.

As an outgrowth of hearings on increasing the exports of processed products the Committee may find it helpful to include a "value-added" title to the 1990 farm bill. In current law, there are some references made to high-value added agriculture but there is no specific title that directs government policy and activity in this area.

The High Value Products Division at FAS is in the process of organizing an Agricultural Technical Advisory Committee. One of the first functions that this group could perform is to conduct a survey of the processed food industry to determine how the government can best assist in developing and expanding their exports. The Agriculture Committee could use the results of this study in the formulation of a value-added export strategy.

Finally, as Congress determines the future of the Export Enhancement Program, there may be some merit in developing an EEP for processed agricultural products. If the U.S. is forced to discontinue EEP because of reduced domestic grain supplies and increased world supplies, a smaller, targeted value-added EEP would maintain pressure for negotiating agricultural trade liberalization and insure a continued presence in some of the highly subsidized markets.

A EEP targeted to value-added products could serve the purpose of counteracting EC export subsidies on flour, vegetable oils and animal products. More leverage with our competitors could be achieved with fewer dollars by concentrating on value-added commodities because the consequences of lost business show up in employment and economic activity, not just EC budget exposure.

It is important to note that with a value-added EEP we do not face an either/or situation where we must either export bulk commodities overseas or export processed products. We need U.S. raw commodities to produce the processed agricultural products. For example, when the corn refining industry exports 14.5 pounds of corn gluten feed, we require 56 pounds of U.S. corn. There is also the tremendous multiplier effect that accompanies the export of processed products. One dollar's worth of corn, exported in the form of dressed poultry, has been calculated to add $44.90 to the U.S. economy.

We feel that there are significant benefits to be accrued from a more aggressive and visible value-added export strategy. Increased exports of processed agricultural products will not only benefit our farmers and rural communities but will also generate new jobs and revenues in the manufacturing sector and improve our balance of trade. Value-added agricultural exports represent a win/win situation for all the parties involved. We hope that the Committee will give serious consideration to continuing the development of this strategy in the 1990 farm bill.

MEMBER COMPANIES
Corn Refiners Association, Inc.
1100 Connecticut Avenue, N. W.
Washington, D. C. 20036

ADM Corn Sweeteners (A division of Archer Daniels Midland Company) P. O. Box 1470 Decatur, Illinois 62525	Plants: Cedar Rapids, Iowa Decatur, Illinois Clinton, Iowa Montezuma, New York
American Maize-Products Company 250 Harbor Plaza Drive Box 10128 Stamford, Connecticut 06904	Plants: Hammond, Indiana Decatur, Alabama Dimmitt, Texas
Cargill, Incorporated P. O. Box 9300 Minneapolis, Minnesota 55440	Plants: Cedar Rapids, Iowa Eddyville, Iowa Dayton, Ohio Memphis, Tennessee
CPC International Inc. International Plaza P. O. Box 8000 Englewood Cliffs, New Jersey 07632	Plants: Argo, Illinois Stockton, California Winston-Salem, North Carolina
National Starch and Chemical Corporation P. O. Box 6500 Bridgewater, New Jersey 08807	Plants: Indianapolis, Indiana North Kansas City, Missouri
Penford Products Co. (A division of PENWEST, LTD.) P. O. Box 428 Cedar Rapids, Iowa 52406	Plant: Cedar Rapids, Iowa
A. E. Staley Manufacturing Company P. O. Box 151 Decatur, Illinois 62525	Plants: Decatur, Illinois Morrisville, Pennsylvania Lafayette, Indiana (2) Loudon, Tennessee

STATEMENT
OF THE
MILK INDUSTRY FOUNDATION
AND
INTERNATIONAL ICE CREAM ASSOCIATION
PRESENTED TO
THE
COMMITTEE ON AGRICULTURE
OF THE
UNITED STATES HOUSE OF REPRESENTATIVES

JULY 13, 1989

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E. Linwood Tipton
President

My name is E. Linwood Tipton, and I am the President of the Milk Industry Foundation and the International Ice Cream Association, on whose behalf I am appearing today.

The Associations

The Milk Industry Foundation (MIF) is the national trade association for processors of fluid milk and milk products, such as yogurt, cottage cheese, sour cream, soft cheeses and dips, and dressings. MIF's 220 member companies operate over 1,000 plants nationwide and process nearly 80 percent of the fluid milk and related products consumed in the United States.

The International Ice Cream Association (IICA) is the trade association for manufacturers and distributors of ice cream and related frozen dessert products. Its 210 member companies operate about 800 plants nationwide and manufacture and distribute approximately 85 percent of the ice cream and related frozen desserts consumed in the United States.

The member companies of both associations in total utilize almost two-thirds of all the raw milk produced in the U.S. to process the milk and ice cream products they market and distribute.

We appreciate this opportunity to appear before the Committee, and we would like to commend the Chairman and members of the Committee for beginning this important process of formulating the policies to be embodied in the 1990 Farm Bill.

Of particular interest to the milk and ice cream industries is the issue of milk pricing since our member companies buy raw milk for their processing operations. The dairy provisions of the 1985 and 1990 Farm Bills are a bottom-line issue to the industries we represent. Most of my comments will therefore focus on dairy policy. We will also offer some brief comments on the domestic sugar program since it also has a significant impact on many of our member companies.

We Support the Dairy Price Support System

I would like to make it clear at the outset that processors and distributors of milk and ice cream products are vitally interested in and supportive of a dairy price support program that will assure an adequate supply of raw milk. And this can only be assured by providing reasonable returns to dairy farmers. Obviously without an adequate supply of milk, no processor of dairy products could stay in business.

We believe the price support program should undergird the market, preventing periods of unreasonably low prices. However, it should not be the primary market price determinant. This seems eminently fair to dairy farmers. The support price would prevent unreasonably low prices but not constrain prices when demand exceeds supply and prices rise.

What Has Worked and What Has Not Worked

Processors of dairy products are businessmen who rely on a competitive marketplace, and they are keenly interested in a dairy policy that is market oriented. They also want one that is consistent, stable, and in place long enough to allow for planning and budgeting. Too frequently in the past this has not been the case. Between 1981 and 1985, for instance, there were seven separate pieces of dairy legislation passed by the Congress in attempts to come to grips with growing dairy surpluses and increasing government costs.

A variety of short term mechanisms were tried during that period to avoid dealing with the larger issue...namely that dairy farmer costs had decreased and support prices needed to be reduced to lower milk production and increase milk consumption. The short-term measures included producer assessments and paid milk diversion programs but neither worked. At the end of fiscal year 1985, the dairy price support program still cost taxpayers in excess of $2 billion and the Commodity Credit Corporation (CCC) purchased 11.5 billion pounds of surplus dairy products. This was ample evidence that short-term solutions were not the answer. They merely postponed dealing with the problem.

1985 Farm Bill

The 1985 Farm Bill was a step in the right direction toward a more balanced, longer term, market oriented dairy program. While we did not support all of the dairy provisions of the last farm bill, and vociferously opposed the whole herd buyout program, the 1985 Farm Bill for the first time clearly linked future support price changes to the level of surplus dairy products purchased by the CCC. As a result, the price support level for milk has been reduced from $11.60 at the beginning of 1986 to today's $10.60 level, and the program is functioning as a safety net for farmers rather than an incentive to produce far beyond market needs.

CCC purchases have decreased from 12.3 billion pounds in FY 1986 to an estimated 9 billion pounds this fiscal year. Government expenditures on the dairy program during the same period fell from $2.4 billion to about $700 million this fiscal year. And for the first time in this decade, the dairy provisions of the 1985 Farm Bill provided the industry with a longer term plan that was far preferable to the patchwork of annual changes which plagued the industry with uncertainty in earlier years.

The 1985 Farm Bill, however, was not perfect. The whole herd buyout program and congressionally mandated increases in Class I differentials under federal milk marketing orders were a mistake.

The whole herd buyout program, much like the paid milk diversion program in 1984, sent a very conflicting message to dairy farmers and created distortions in both the milk and meat markets. While government price supports were being lowered to reduce production, market prices were forced up due to supply disruptions. These market distortions were caused by the buyout program which had unequal signups in different regions of the country. For instance, while nearly 25 percent of the producers in Alabama slaughtered their cows during the 18-month program, only 3 percent of the farmers in Wisconsin signed up to exit from dairying. This created shortages in Alabama forcing milk processors in that area, in a very short period of time, to seek supplies from other production areas. The only way they could obtain supplies was to bid the prices up in other areas making it more profitable for dairy farmers to supply them rather than their traditional markets.

As a result of the buyout program, the national market price for raw milk, as reflected by the Minnesota-Wisconsin (M-W) price, increased by a then record $.93 per hundredweight between May and November of 1986. This was extremely disruptive and costly to consumers. Instead of discouraging production, it sent a strong signal to producers to increase production at the same time that the government was paying almost 14,000 dairy farmers to go out of business for five years. Similar types of market distortions and price increases occurred during the 1984 paid milk diversion program. This must be avoided in the 1990 Farm Bill.

The increase in Class I price differentials required by the 1985 Farm Bill also sent conflicting signals to dairy producers by increasing Class I milk prices by as much as $1.03 per hundredweight. The Southeastern part of the U.S., which had higher than average participation in both the paid diversion program in 1984 and the buyout program in 1986, received a big incentive to again increase milk production as a result of the higher Class I differentials. This was clearly at odds with the intent of Congress to lower government costs and dairy surpluses. This, too, must be avoided in the 1990 Farm Bill.

What is Needed

These facts point out that in the past, dairy policy has often been short term and short sighted. Conflicting provisions and programs have prevented the stated objectives from occurring on more than one occasion. This must cease. The dairy industry is and will be much more responsive to a stable, long-term, and consistent dairy policy. The industry, both producers and processors, can and will prosper with such policies. It would be a critical mistake to return to the hodge-podge of temporary programs that clearly did not work prior to the 1985 Farm Bill. It would also be a mistake to discard those elements of the 1985 Farm Bill which have worked.

In 1990 and beyond we feel strongly that any new dairy legislation should have as its objectives the following:

- Maintain an adequate supply of pure and wholesome milk to meet current and future needs.
- Be market oriented.
- Provide the flexibility needed for changing technology.
- Provide the opportunity to participate in the expanding international market for dairy products and foods made from dairy products.

Maintaining an Adequate Supply

USDA data indicates that the average total economic cost of producing milk in the United States has declined from $12.18 per hundredweight in 1985 to $11.74 in 1987, the most recent data available. Though not yet available, 1988 costs are expected to be up somewhat as a result of last summer's drought. But last year's drought was an aberration in this long-term decline, and we're confident that costs will decrease again beginning this fall. The decline will be largely the result of decreasing feed costs and increased output per cow.

Milk production per cow has increased on average about 2 percent each year for the last ten years, and more recently during the past three years, it's been even greater. We expect even more rapid increases in milk production per cow during the life of the 1990 Farm Bill, and dairy price support policy should include consideration of this highly probable outcome.

Be Market Oriented

Consumption of milk in all its various forms has increased significantly during the past five years. In our opinion this has been largely the result of milk and dairy products being a "good buy" relative to other foods. The consumer price index for dairy products stood at 108.4 for 1988, only a 5 percent increase compared to 1985. This compares favorably to the all-food index which has increased by almost 12 percent during the same period. It also compares most favorably with the retail price indices of other competitive or substitutable foods such as:

	1985	1988 (1982-84=100.0)	% change
Meat	98.9	112.2	13
Poultry	106.2	125.1	18
Bakery	108.2	121.8	13

We are certain milk and dairy product advertising has contributed significantly to these gains as well, but in our opinion the competitive position of dairy products relative to other foods was by far the largest contributor to increased sales of dairy products.

The lower cost of dairy ingredients has permitted dairy foods processors and manufacturers to be more innovative and creative. In

1980 there were only 68 new dairy product introductions compared to nearly 600 last year. Certainly lower dairy ingredient prices have played a role in these new product introductions.

Much attention is focused on the National Dairy Promotion and Advertising Program, and I don't want in any way to demean that excellent program, but we think you should have a proper perspective of the amount of money being spent for advertising and promotion in the dairy industry. The national, regional, state, and local dairy advertising and promotion groups collectively are spending about $200 million annually. Milk processors and manufacturers are spending another $1 billion--five times the amount spent by generic dairy advertising programs. This is a significant increase in the amount spent by dairy products' processors and manufacturers and, in our opinion, is the direct result of the fact that milk and dairy products are a good food buy. The 1990 Farm Bill must continue to keep the cost of dairy products competitive with other food costs.

Ice cream and other frozen dairy desserts are among the most profitable of all frozen foods in U.S. food stores. But many food retailers are not providing freezer space in their stores commensurate with the contribution to profits made by dairy frozen desserts. We've mounted an extensive campaign to inform food retailers of this fact and to obtain more retail freezer space in which frozen dairy desserts can be merchandised.

In addition, we have a major project underway to measure the contributions to profits of dairy foods in the refrigerated dairy case of retail food stores compared to other nondairy foods which are increasingly gaining a disproportionate share of supermarket refrigerated shelf space.

Preliminary results clearly show that virtually every dairy product in the dairy case (refrigerated foods case) makes a larger contribution to retailers' profits than do the nondairy products in the case. However, more and more space is being devoted to nondairy foods at the expense of dairy foods.

I cite these situations merely to demonstrate that the dairy industry--processors, manufacturers, and dairy farmers--have mounted a major marketing offensive, and the 1990 Farm Bill should do everything possible to support that offensive. Keeping dairy products as competitive as possible with other foods is the major strategy in that offensive. If that is done we are certain the advertising, promotion, new product introductions, and general marketing initiatives will be further expanded.

Changing Technology

We anticipate major breakthroughs in further improving the amount of milk produced per cow during the life of the 1990 Farm Bill. The improved technology will reduce the cost of producing milk and will contribute greatly to improved sales of milk and dairy foods.

Embryo transplants, reverse osmosis to reduce the water content of milk and thereby lower transportation costs, and the use of bovine somatotropin to improve output efficiency can easily mean a 15 to 30 percent increase in efficiency by 1995. Thus, while milk production per cow has recently increased at the rate of about 2-3 percent per year, we can expect an increase of 5-9 percent per year during the next five years.

Often a possible reduction in milk price supports is discussed in a vacuum from the increased efficiencies. They should not be. A 5 percent increase in output per cow may well translate into a 50-cent per hundredweight or more reduction in production costs.

A market oriented dairy policy means part of these cost reductions should be passed on to consumers. If the 1990 Farm Bill provides mechanisms to accomplish this, we are convinced sales will continue to increase, dairy farmers net profits will be increased, and consumers will benefit from lower cost dairy products.

We believe this should be the cornerstone of dairy policy as embodied in the 1990 Farm Bill.

Participation in Expanding International Markets

We believe that market oriented dairy provisions of the 1990 Farm Bill, which permit the adoption of rapidly developing technology and the sharing of cost savings with consumers, will result in major improvements to dairy farmers' net income and profits. And that's the way it should be!

Currently, and for the first time ever, U.S. exporters are selling large amounts of nonfat dry milk on a world market at prices well above the U.S. purchase price for nonfat dry milk. We firmly believe the U.S. can be and will be one of the major competitors in a larger world market for dairy products. New Zealand and Australian milk producers have lower production costs than U.S. producers, but the quantity they are able to produce is limited. U.S. producers are in a position to obtain a substantial amount of the world market for dairy products and foods produced from dairy ingredients.

It's a simple matter of reducing costs and prices, while maintaining net profit per unit and then selling more products. That's the formula to success for U.S. dairy farmers, and the dairy provisions of the 1990 Farm Bill should assure that outcome.

The Current Situation

Because of last year's drought, milk supplies and prices paid to dairy farmers have followed an abnormal pattern this year. Milk supplies nationally have been plentiful relative to demand especially in the West and Southwest, but quite tight in the Upper Midwest. With the demand for cheese remaining strong, prices paid for milk in the Upper Midwest have continued to be above the milk price support level even during the flush production period this spring.

However, we fully expect this situation to change as soon as lower cost feed is available from this year's harvest. We expect milk production to again increase and CCC acquisitions to increase as well.

Currently the CCC is acquiring butter, but no nonfat dry milk or cheese. We expect that situation to continue this fall and winter.

Demand for dairy foods is shifting away from those with higher milk fat content to those with lower quantities of milkfat. This shift is contributing to the surplus of butter being acquired by the CCC.

This shift in market values must be recognized by the price support program. It will be necessary to further reduce the CCC purchase price for butter when the support price declines by 50 cents on January 1, 1990, assuming a 50-cent reduction is needed at that time.

The ratio of butter and nonfat dry milk prices have already changed significantly over the past several years and will likely change even more in the next few years as this table demonstrates:

Fiscal Year End	CCC Butter Purchase Price	CCC Nonfat Dry Milk Price	Ratio of Butter to NDM Price
	(Dollars per pound)		
1960	.5875	.1340	4.38
1965	.5875	.1440	4.08
1970	.6850	.2340	2.93
1975	.6950	.6060	1.14
1980	1.4325	.8950	1.60
1985	1.3975	.8075	1.73
1989	1.2050	.7900	1.52
1990 (Projected)	1.090	.7900	1.38

We believe further decreases in butter prices will be inevitable.

Sugar Program Must Be Changed

Mr. Chairman, there is one other area that I would like to touch on briefly, and that is the U.S. Sugar Program. Although the sugar program works much differently than the dairy program, it too should be a safety net for U.S. farmers rather than an incentive for expanding production. In the area of world trade, no commodity program stands out so clearly in violation of the basic concept of free trade. I realize the U.S. is not alone in protecting its sugar growers, but the 1985 Farm Bill went too far. We believe prices are protected at too high a level and should be gradually reduced. The 1990 Farm Bill provides an opportunity for this program to be corrected through modest change, and we support such change!

Mr. Chairman and distinguished members of the Committee, in summary I believe we have a healthy, vibrant dairy industry that will continue to grow if not stifled by short-term government policies and programs. Your Committee will play an extremely crucial role for the future of the dairy industry, and we look forward to working with you. Thank you again for the opportunity to appear today.

STATEMENT OF EVANS J. PLOWDEN, JR.
GENERAL COUNSEL OF THE
SOUTHEASTERN PEANUT ASSOCIATION

Mr. Chairman, my name is Evans Plowden; I am general counsel for the Southeastern Peanut Association. We are a trade association made up of all but two of the commercial peanut shellers operating in the Southeastern United States. Our members in the Southeast handle over 60% of the quota peanuts in the United States and approximately 80% of the commercial additional peanuts.

We appreciate the opportunity to be present today to present our views both with respect to the effectiveness of the Food Security Act of 1985 and our views on the 1990 Farm Bill.

In our opinion the legislation written by your committee and passed by Congress as the Food Security Act of 1985 was and is an excellent piece of legislation. By-and-large it has accomplished its objectives. Growers have been given a stable situation in which to make a decent profit, manufacturers have been given a stable supply of quality peanuts and shellers have been granted additional flexibility to operate in the world market. All of this has been done at virtually no cost to the government. American consumers receive quality peanut products at a reasonable price. The economy of Southern Georgia, Southern Alabama and

Northwest Florida, while not in particularly good shape now, would undoubtedly be much worse without the peanut program you passed in '85.

Mr. Chairman, I know you recognize that the basic key to the present peanut program is the two price system for peanuts created back in the '70s. We as shellers recognize that having two classifications of peanuts, quota and additional, priced differently, is necessary to control government costs. However, we should be aware that in order to make that program work the burden of the policing has by-and-large fallen on the shelling industry. We recognize that we must play that role and while it is not one that we like we realize that we must shoulder it.

Because of the role we must play, Mr. Chairman, our concerns about the Food Security Act of 1985 as well as the 1990 Farm Bill tend to be focused upon creating a mechanism to allow the handling and export of additional peanuts with less complication and more potential for increasing exports. Congress in 1985 took a giant step toward accomplishing that goal by the passage of what we refer to as non-physical supervision of the handling of contract additional peanuts. By all accounts, with some exceptions I will mention later, those provisions have worked exceedingly well. We believe they have caused not only a smoother business operation but have contributed greatly to the export of peanuts.

Our association supports the present peanut program generally. We do think that it can be substantially improved by fine tuning several provisions of the 1985 act. I emphasize these are not major changes in so far as the overall concept of the act, however, they can be major when applied to our segment of the industry and we believe generally would enhance the prospects of American peanuts being sold overseas.

From our standpoint the most important change needed is the allowance of a realistic shrinkage for shellers' contract additional export obligations. At present, handlers of substantial amounts of additional peanuts must export significant quantities of quota peanuts to fulfill their obligation. Obviously this is a large financial detriment and tends to inhibit peanut exports. We believe that the present shrinkage allowed by the department is grossly inadequate and not consistent with the intention of Congress in the 1985 act.

Historically the peanut industry, and I suppose industry generally in the United States, has experienced some difficulty with the regulatory process. In our industry this difficulty arises in basically two areas. First, there seems to be an unreasonable delay in the formulation of regulations. (Those pursuant to the 1985 bill were issued in the later part of June 1986.) Mr. Chairman, commerce can not fly very well in the dark for that period of time. We have waited on a final shrinkage rule since last Fall. Second, the regulations don't fit the real world very well.

While I don't have an answer to that problem I do believe that the creation of some regulatory advisory committee to the Secretary would be of assistance. First, such a committee would give the Secretary the benefit of the vast practical knowledge present in the industry. Secondly, those inappropriate or counter-productive regulations could be identified before issuance and more appropriate regulations initially issued. We certainly do not propose that the industry be given any formal authority but rather that a structure be created to allow the industry early and frequent input into the development of regulations.

Our association has identified a number of other issues which we believe the 1990 bill should address in some manner. Generally these matters are technical in nature and are designed, as I said earlier, to benefit the entire industry with no detriment to any segment or the government.

The requirement for a contract on additional peanuts and the deadline for filing that contract with the ASCS has previously been of concern to the industry and it continues to be.

We believe that increased flexibility between the categories of peanuts exported and the credit given therefor should be provided. This is a highly technical matter but basically would allow sound mature whole kernels and sound split kernels to be treated interchangeably, thereby allowing the industry to be more responsive to the market.

Along this same line we believe that handlers should be allowed to crush, if appropriate, additional peanuts and receive the same credit as if those particular peanuts had been exported. The public is becoming more and more health conscious. Peanut oil, while expensive, is generally recognized as a very healthy oil. It is not inconceivable that the oil crushing market could, during the term of the 1990 bill, become a viable, as opposed to a residual, market and the industry should be allowed to respond to that market if it develops.

Most handlers of peanuts in the United States are signers of the Peanut Marketing Agreement which has the function of developing regulations dealing with quality of peanuts. Unfortunately, all handlers are not signers. We believe that the present situation and structure regarding the Peanut Marketing Agreement and the Peanut Administrative Committee must be changed. We stand ready to work with all interested parties to develop some specific recommendations for this committee. However, we do not believe that the present situation can continue.

Mr. Chairman, as you are aware, at present the area associations provide Commodity Credit Corporation loans at 100% of support price to growers. We are concerned that we compete directly with the loan. It would seem to be more appropriate that the government loan be used as a market of last resort rather than a market of first resort. When shellers buy peanuts there is absolutely no chance for loss to the government. When the Commodity Credit Corporation buys peanuts there is of course always the chance of loss.

We support a change in the deadlines and procedures for export of peanuts. The August 31 deadline is a meaningless deadline under non-physical supervision and we believe it should be changed to December 31.

I also want to mention, Mr. Chairman, that apparently the Secretary of Agriculture has decided that certain decisions will be made with no public notice or comment opportunity. That decision has recently been applied to price support differentials between various types of peanuts thereby eliminating the notice previously given and comment period allowed. We believe that procedure to be unsound and unfair. We believe all interested parties should be given notice and have an opportunity to comment before differential decisions are made final.

Mr. Chairman, we believe you wrote a very fine piece of legislation in the peanut section of the Food Security Act of 1985. We support its basic continuation with "fine tuning".

Let me say again how much we appreciate the cooperation and responsiveness that this industry has always had from both the Chairman and members of the committee and your staff personnel. We appreciate your helpfulness and responsiveness.

Mr. Thomas A. Hammer
President
Sweetener Users Association

COMMITTEE ON AGRICULTURE
U.S. HOUSE OF REPRESENTATIVES

STATEMENT OF THE SWEETENER USERS ASSOCIATION ON THE REVIEW OF ISSUES RELATING TO THE FORMULATION OF THE 1990 FARM BILL

The Sweetener Users Association is pleased to have the opportunity to present its views on the issues relating to the formulation of the 1990 Farm Bill. We will confine our remarks to the sugar program, which was authorized by both the 1981 and 1985 omnibus farm legislation.

The Sweetener Users Association represents industrial users of nutritive sweeteners and the trade associations representing such companies. The Association supports legislative or administrative actions that would result in a more market-oriented sweetener price and an adequate and reliable supply of domestic and foreign sweeteners.

We applaud Chairman de la Garza for holding these early hearings in order that those constituencies impacted by the operation of the Farm Bill have the opportunity to assist in defining the nature and direction of U.S. farm policy for 1990 and beyond.

The Sweetener Users Association strongly supports legislative modifications to the current sugar program. There are a number of legislative approaches that could be acceptable to the industrial manufacturers of sweetened products and beverages; however, any such change must contain two fundamental elements: (1) a lowering of domestic sweetener prices; and (2) an increase in the quantity of imported raw sugar available to the U.S. market.

THE 1985 SUGAR PROGRAM

The 1985 Food Security Act mandates that the Secretary of Agriculture shall support the price of raw cane sugar at no less than 18¢ per pound. The Act further requires the "President to use all available authorities to enable the Secretary of Agriculture to operate the sugar program at no cost to the Government." In Conference Report language, the

Conferees explained that by "no cost," it is meant that the import quota on raw and refined sugar be adjusted to such a level that there are no forfeitures of domestic sugar to the Commodity Credit Corporation (CCC) and, thus, "no cost" to the government.

To minimize the possibility of the acquisition of sugar by the CCC, the Secretary maintains a market stabilization price (MSP) well above the statutory loan rate for raw sugar. The MSP for the 1988/89 season is 21.8¢ per pound. Thus, the MSP establishes the effective minimum price for raw sugar in the United States. The domestic raw sugar price is over 23¢ per pound versus a 14¢ per pound world price. This currently translates into a domestic wholesale refined sugar price of 29-30¢ per pound -- approximately 20 percent above a year ago.

SUGAR IMPORT QUOTAS

In order to achieve the MSP, or market price objective, the Secretary of Agriculture has implemented a highly restrictive import quota. Since sugar quotas were initiated in 1982, imports of raw sugar have been reduced by approximately 75 percent. At the beginning of calendar year 1988, U.S. sugar imports were set at 750,000 tons. The 1988 drought pushed the quota back to 1.26 million tons for this calendar year. However, many analysts expect the import quota to fall back to 750,000 tons or less in 1990, and perhaps to zero in the not too distant future.

It is at that point that budget outlays will begin to occur, either for loan forfeitures or for export subsidies to unload surplus sugar production. Once the sugar program begins to cost money, the question of its sustainability becomes a real issue.

GATT COUNCIL RULES AGAINST U.S. SUGAR QUOTAS

A recent GATT decision has also called into question the sustainability of the existing sugar program.

In September 1988, the Australian government challenged the United States over the use of the "tariff headnote" authority for imposition of sugar import quotas. A three-member panel chosen by the GATT Secretariat heard the arguments of both parties and in May 1989 determined that U.S. quotas violate GATT Article XI. On June 22, 1989, the

96-member GATT Council voted unanimously that U.S. sugar quotas are in violation of the General Agreement on Tariffs and Trade.

Although the timing of the subsequent steps to be taken by the United States is inexact, eventually changes must be made to the sugar program in order to comply with GATT rules. The result of refusing to modify the U.S. sugar program could lead to costly compensation to Australia and other sugar exporters. Indeed, should these countries refuse compensation, this matter could eventually lead to retaliation against U.S. farm and nonfarm products.

THE CURRENT SUGAR PROGRAM -- A REVIEW

An oft-used phrase in the agriculture vernacular is "if it ain't broke, don't fix it." While this makes extraordinarily good sense, the corollary is equally true.

Is the sugar program "broke"? On the face of it, the 1985 sugar program has done its job. It has supported domestic prices some 4¢ or more above the statutory minimum of 18¢ per pound and appears to have done so at no direct cost to the federal government. But, in spite of repeated assurances by members of the Agriculture Committee in 1981, and again in 1985, that 18¢ was merely a minimum "safety net" that sugar growers needed to survive, this price support became a powerful incentive to overproduce.

Over the past eight years, the production of cane and beet sugar has increased from 6.2 million tons in 1981 to 7.1 million tons in calendar year 1988 - an increase of over 15 percent. The increase in production has not been dictated by market signals, but rather has taken place due to one basic factor. Government has made the growing of sugar extremely profitable. It is profitable because the government guarantees it. In fact, since the 1981 Act was implemented, there has been a major contraction in the use of sugar in the United States. Table 1 shows the changes in consumption of various sweeteners for calendar year 1981 through calendar year 1988.

Table 1
U.S. Sweetener Use

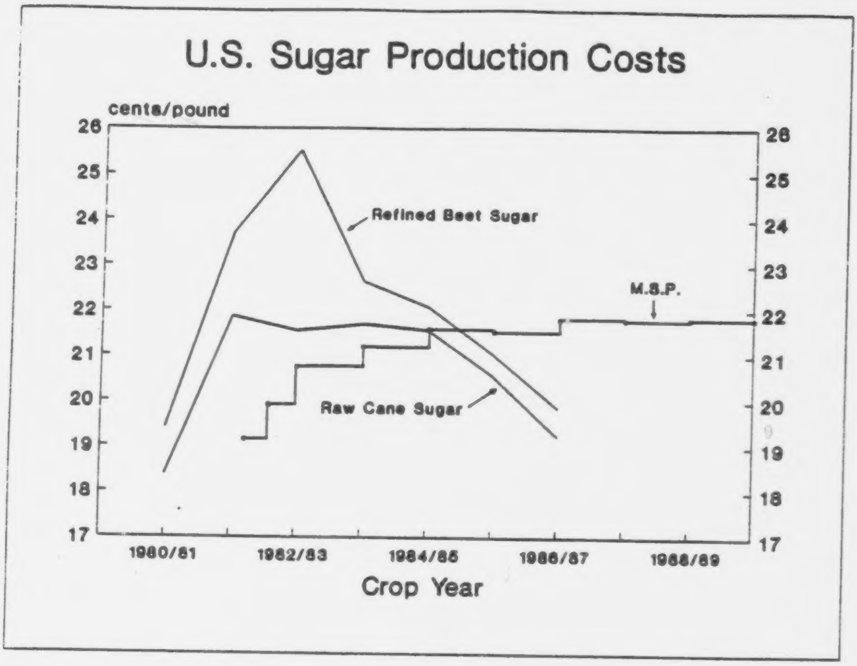
	1981		1988	
	(mst)	(%)	(mst)	(%)
Domestic Beet	3.2	20	3.6	18
Domestic Cane	2.7	17	3.5	18
Imported Cane	4.0	25	1.1	6
Total Sugar	9.9	62	8.2	42
Corn Sweeteners	5.1	32	8.6	44
Honey and Syrups	0.1	1	0.2	1
Low Calorie	0.9	5	2.5	13
Total	15.9	100	19.5	100

A quick look at this table tells several things: (1) total sweetener usage is up, but consumption of imported sugar has dropped from 23 percent of total usage to 5 percent; (2) overall sugar usage has been declining while domestic production has expanded; and (3) corn sweeteners and, to a limited extent low calorie sweeteners, have displaced traditional sugar usage.

In view of the fact that we are supporting the domestic sugar industry at a level that exceeds full production costs, including returns to land and capital, it is no wonder that the domestic industry is expanding output. Moreover, the current sugar program has been designed and operated so as to guarantee that even the least efficient producers can cover their cost.

Most of the industry could compete under a lower support level. It is to the industry's credit that it has become more efficient and reduced its cost. But, there is no way for the existing legislation to adjust to this change. The current MSP of 21.8¢ per pound covers full costs, as Figure 1 demonstrates.

Figure 1



More recent production costs are not yet available, but it is believed that production costs were lower in 1987 and only slightly affected by the 1988 drought and should again be lower in the current crop year.

SUGAR VERSUS ALTERNATIVE CROPS

The expansion of the nation's sugar crop at a time when domestic usage has been declining can be better explained when viewed in the context of alternative crop returns.

To begin with, sugar growers receive program benefits (price protection) without incurring any of the program obligations that producers of feed grains, wheat, rice and cotton must accept in order to be eligible for federal price and income protection.

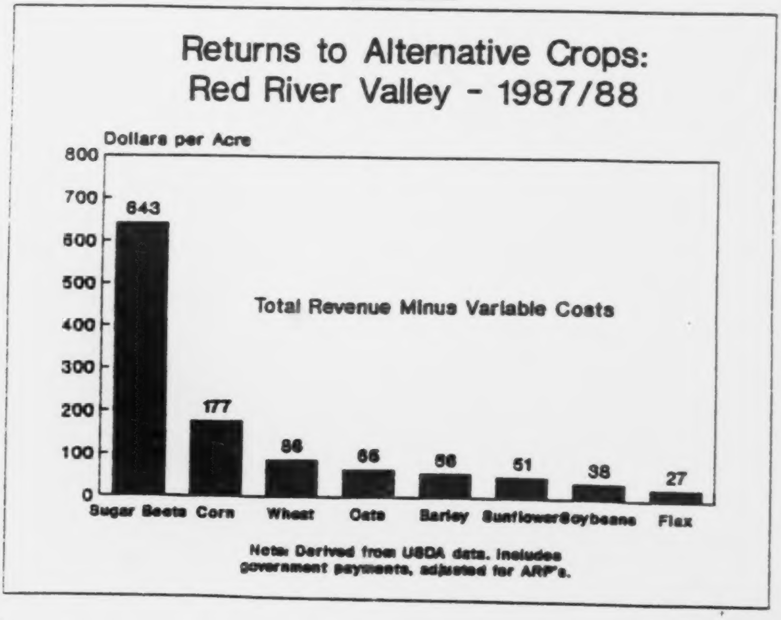
While producers of alternative crops have been faced with acreage reductions (ARP's) of 10 to 35 percent over the past several years, sugar production has expanded by approximately 20 percent since the 1985 Act. Sugar producers do not have to comply with producer payment limitations since their price protection is supported by a consumer tax versus taxpayer dollars.

But, more indicative than the fact that the sugar program provides most growers with a price guarantee of 35 to 40 percent above the full cost of production and double their cash cost is the relation to returns paid to alternative crop producers.

For example, sugar beets grown in the Red River Valley yield $643 per acre total revenue after accounting for variable costs. By comparison, corn provides about $177 per acre. In Texas, sugarcane provides $331 per acre and sugar beets $173 per acre versus $170 for cotton and $81 for corn. Returns for land provide similar comparison (see Charts 1-4).

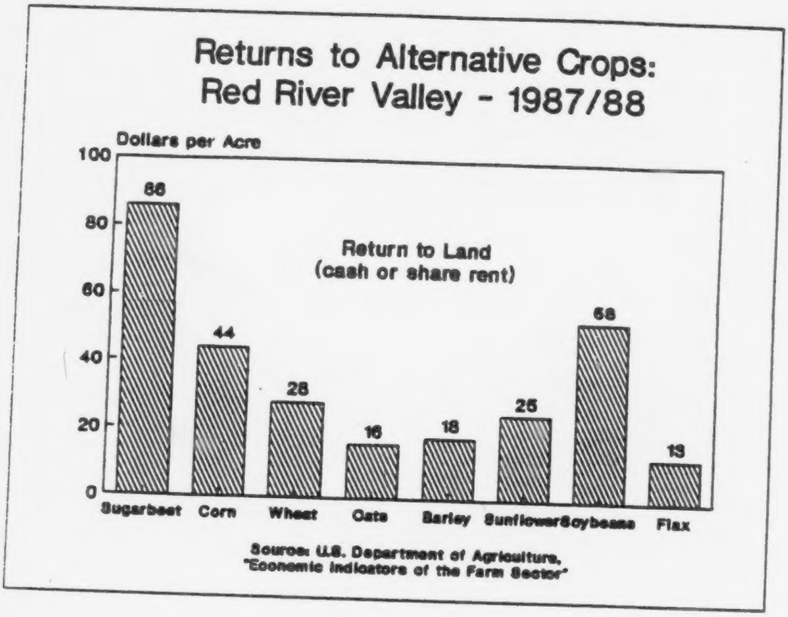
A similar analysis of other sugarcane and sugar beet producing areas would show similar results.

Chart 1



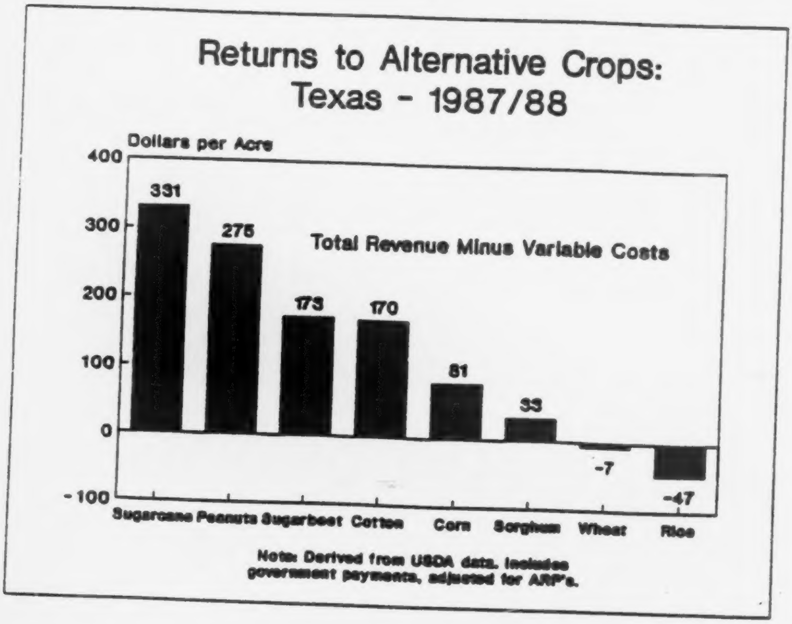
Note: Derived from USDA data. Includes government payments, adjusted for ARP's.

Chart 2



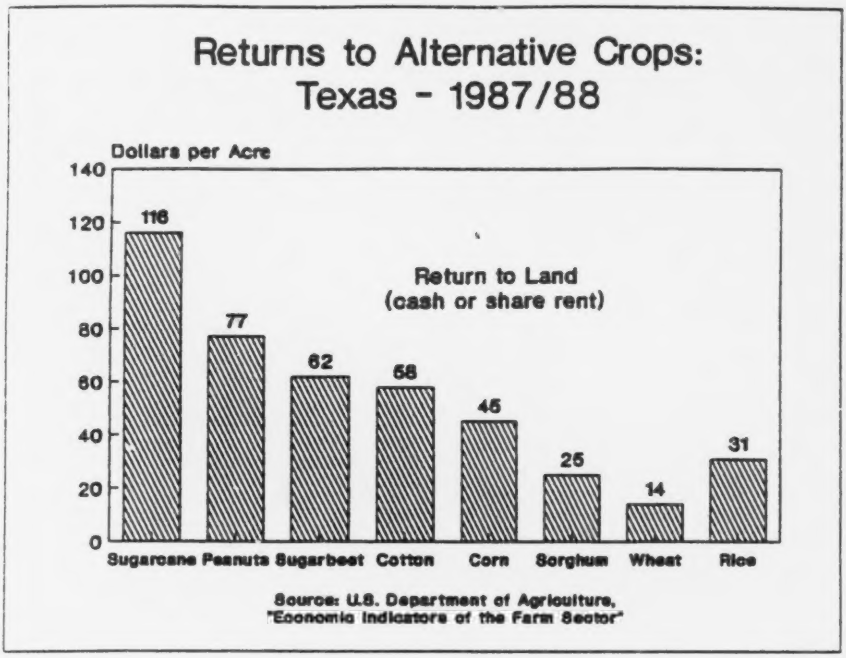
Source: U.S. Department of Agriculture,
"Economic Indicators of the Farm Sector"

Chart 3



Note: Derived from USDA data. Includes
government payments, adjusted for ARP's.

Chart 4



Returns to Alternative Crops: Texas - 1987/88

Source: U.S. Department of Agriculture, "Economic Indicators of the Farm Sector"

THE SUGAR PROGRAM -- FUTURE CHOICES

On the eve of a new Farm Bill, it appears that producers, refiners, users, consumers and exporters believe that the current sugar program must be changed.

Let's examine the two most frequently discussed options.

PRODUCTION CONTROLS

Sugar producers talk boldly of a return to production and marketing controls to avoid any tinkering with the sugar loan rate. However, it is believed that the more market-oriented members of the Agriculture Committee are not eager to return to these failed programs of the past.

It does not matter what you call them -- production controls, marketing allotments, supply controls, etc. -- they are a bad idea and would be a move in a direction precisely opposite that expected to be followed in the 1990 Farm Bill. The Congress, the Administration, and most farm and commodity groups have called for greater flexibility for farmers trying to establish a rational cropping pattern. Production controls for sugar crops would not only be a move backwards but would ultimately fail as a solution to the sugar problem.

Because of the changes that have occurred in the mix of domestic sweetener usage during the 1980's and expected new developments in the 1990's, it would be impossible to operate mandatory controls in the manner that was done from 1934-1974 when sugar was the dominant sweetener of choice. However, corn sweeteners and low calorie sweeteners now account for approximately 57 percent of the market, thus making controls on sugar alone ineffective over the long run.

Substitution is the enemy of production controls. High sugar prices in the United States made a success of high fructose corn syrup (HFCS) and if they persist, they will inevitably make a success of crystalline fructose and a variety of low calorie sweeteners. Production controls for sugar would represent an attempt to freeze things in place:

- -- locking in artificially high profitability for the sugar industry;
- -- preventing the more efficient beet and cane sugar producers from expanding further; and
- -- keeping out new entrants.

No doubt the Congress will be asked to set domestic quotas as high as possible (i.e., not too much below the recent production level of about 7 million tons). Imports will be squeezed again by substitution of other sweeteners and by greater imports of the numerous sweetened food products that are traded internationally. And we will soon find ourselves in the position of having to subsidize exports of surplus domestic sugar.

Fortunately, the very unworkability of mandatory controls will doom this approach.

If the current sugar program cannot be sustained and a return to mandatory controls is not obtainable, what is the solution?

THE SUGAR SUPPLY STABILIZATION ACT

The Sugar Supply Stabilization Act is more consistent with the market-oriented farm programs. It would move the U.S. government from a position of guaranteeing profitability of inefficient producers to one of providing a "safety net" for efficient ones. It would permit market forces and consumer preferences to determine the sweetener mix in the U.S. food system rather than being dictated by government. And it is compatible with having a healthy sugar industry over the long term.

This objective would be achieved by gradually reducing the loan rate by 1-1/2¢ per pound over a four-year period. In the case of refined beet sugar, average f.o.b. prices would fall to about 20¢ from levels that have recently ranged from 24-30¢ per pound. Even based on USDA's 1986 figures, with by-product credits this would still cover all variable and fixed costs. And with costs having declined further since 1986, it is clear that the bulk of the beet industry would still remain in business. In the case of cane sugar, prices at the mill would decline from 20.5¢ to 14.5¢ (allowing 1-1/2¢ per pound for transportation). Based on USDA data, this would cover average variable costs but not fixed costs.

As inefficient producers drop out, average costs of production figures will decline. There are many growers and processors who will continue to be profitable, even at significantly lower prices. A move to a lower price support level would bring even further cost-cutting efforts.

Thus, the Sugar Supply Stabilization Act represents a reasonable approach to U.S. sweetener policy. It would certainly be more consistent with farm programs for other crops. The grain and cotton programs are designed to let market forces play a major role in establishing a balance between supply and demand. It is an approach that should be applied to sugar. Of course, producers of some of these other crops also receive direct payments in addition to what they earn from the marketplace. But to get those payments, they have had to idle significant amounts of acreage, become subject to payment limitations, and incur other obligations such as scheduled support price decreases.

THE CORN RELATIONSHIP

Changes in a specific commodity program can have either a positive or negative impact on other producers. In fact, much debate has centered on the question of whether a 6¢ per pound reduction in sugar price supports will affect the demand for corn and therefore the price of corn. Corn growers like to cite the 25¢ price impact that would result if all corn sweeteners were eliminated. It is hard to imagine a scenario where that would occur. It is more likely that demand for this product will continue to grow.

All the evidence indicates that corn growers would be unaffected if the sugar program is made more market-oriented through a gradual 6¢ reduction in the sugar loan rate. HFCS demand would not be reduced, corn use would stay the same, and corn prices would, therefore, be unaffected.

These conclusions are well documented in a report prepared by Abel, Daft & Earley entitled "The Corn Market; Effects of Reforming the Sugar Program." This report was released by the Sweetener Users Association.

In a December 1, 1988 letter to Senator Bill Roth (R-DE), Assistant Secretary of Agriculture Ewen Wilson wrote:

> "We agree with the Abel, Daft & Earley study that a reduction of the sugar support price from 18 to 12 cents per pound under the conditions assumed in the study would not likely cause a significant reduction in the production of high fructose corn syrup (HFCS). HFCS revenues would fall, but would still cover average production costs.
>
> "As the study shows, the suggested reduction in the raw sugar support price would produce a refined price near 19 cents a pound, compared with the 1988 price of 24.3 cents. The average cost of producing HFCS was estimated to be around 12 cents a pound when corn was $2.00 a bushel. Even at considerably higher raw material costs, HFCS could continue to be priced below

> sugar and still yield a return above average production costs. There may be some producers having production costs above the industry average. The operations of these firms or plants could be affected by the lower HFCS prices. However, on the whole, corn growers would essentially be unaffected as the study concludes."

Thus, a 6-cent per pound reduction in the sugar price support program would be neutral on the corn program and corn growers.

FARM BILL VERSUS INTERNATIONAL TRADE NEGOTIATIONS

American agriculture is heavily dependent on exports for continued prosperity. The problems of the farm sector in the mid-1980's were largely attributable to a sharp decline in exports between 1980/81 and 1985/86. Over the course of that 5-year period, the United States ceased to be the dominant supplier of the world's grain and soybean needs.

- Exports of wheat, corn, and soybeans fell 37 percent, from 4.6 billion bushels to 2.9 billion bushels.
- The total value of U.S. agricultural exports fell from $44 billion to $26 billion.
- The agricultural trade surplus fell from $27 billion to $5 billion.

The 1985 Farm Bill took certain steps to try to reverse that decline and has been largely successful in carrying out its objectives, but has been very costly. The farm economy continues to rely on government interventions that are very expensive: acreage idling programs to hold production in check, export subsidies to generate foreign sales, and target price payments to support farm income. Market-driven growth in exports is the best approach to reducing the budget pressures associated with these programs.

In order to further expand agricultural exports in a sustainable manner, it is essential that foreign tariff and nontariff barriers be lowered significantly. Policies in other countries that unduly stimulate production, or that restrict consumption, are the principal obstacles to greater U.S. exports. The current round of GATT negotiations offer the best opportunity to make progress in reducing those obstacles.

The U.S. sugar program is among the most restrictive agricultural programs in the world and runs counter to the basic market-oriented approach that this Committee has adopted for the basic agricultural commodity programs.

It is tempting to paint the European Community as the "foreign devil" responsible for all of the ills of the world sugar market. However, since 1982, the Community has made some modest strides in cutting net sugar exports by 0.5 million tons, even with the addition of new member countries. On the other hand, the slight world market price recovery that might have resulted from EC export discipline in the mid-1980's was offset by progressive reductions in U.S. imports from about 4 million tons at the beginning of this decade to about 1 million tons in recent years.

Thus, while blame for the low prices of the late 1970's may be laid at the doorstep of the European Community, the acute and more prolonged market crisis of the 1980's appears to owe most of its peculiar vigor to the U.S. sugar program.

While it may not be politically practical to eliminate the U.S. sugar program outside the context of the larger trade negotiations, it is nevertheless wholly appropriate and necessary to realign the U.S. sugar program with the support prices offered alternative competing commodities in the 1990 Farm Bill. Almost four years after the passage of the 1985 Act, it is clear that there are certain imbalances among programs for the different crops. Most notable among these are the following:

- The corn program is so generous that farmers cannot be induced to expand soybean acreage even when soybean prices are high.
- The support provided to oats is so meager that it has created an artificial shortage.
- The marketing loan programs for rice and cotton have been criticized by producers who believe they are not working as intended.
- The sugar program is overly generous relative to programs for other crops.

These imbalances among commodities have become large enough to force some real program changes in the 1990 Farm

Bill. Efforts to cut the federal budget will propel additional changes. One thing is for certain -- the sugar program is very much out of sync with alternative crops such as corn, wheat, etc., and, therefore, should be modified to eliminate the basic inequities that have arisen since the 1985 Food Security Act was enacted.

CONCLUSION

The current sugar program is not going to be the program of the future. The time to change the program is now.

The 1981 sugar program, as amended in 1985, has sown the seeds of its own destruction. The simple fact is that the "safety net" was set too high. If allowed to continue, it will eliminate all sugar imports for the first time in the nation's history and then begin to cost excessive amounts of taxpayer dollars to support 10,000 growers who represent less than 1 percent of American farmers.

Mandatory production or marketing controls are not viable options because they will never be supported by all segments of the sweetener industry.

Unlike other proposals that offer only short-term fixes, the Sugar Supply Stabilization Act addresses the basic problem by paring the excessively high support price down to a level that will permit competitive market forces to work. The evidence is now clear that the purported "safety net" installed by the 1981 Act has only served to encourage domestic sugar production, and otherwise distort the domestic sweetener mix. The adverse effects of the current program on consumers, sweetener-using industries, cane sugar refiners, and United States foreign policy interests have been severe.

We urge the Committee to adopt a sugar support price program that (1) maintains an efficient sugar industry but does not encourage inefficient growers; (2) provides for a reasonable mix of domestic and foreign sugar; (3) does not unduly burden either the domestic taxpayer or consumer; and (4) allows for more market-oriented domestic sweetener prices.

If this is done, the sugar program will continue during the 1990's. If not, the Congress may ultimately reject the sugar program as it did in 1974 when it fell into disrepute with the majority of the farm and nonfarm congressional members.

The Sweetener Users Association represents companies and associations that play an essential role in the U.S. sweetener economy. We thank you for your attention to this vital issue.

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EMMETT BARKER • PRESIDENT

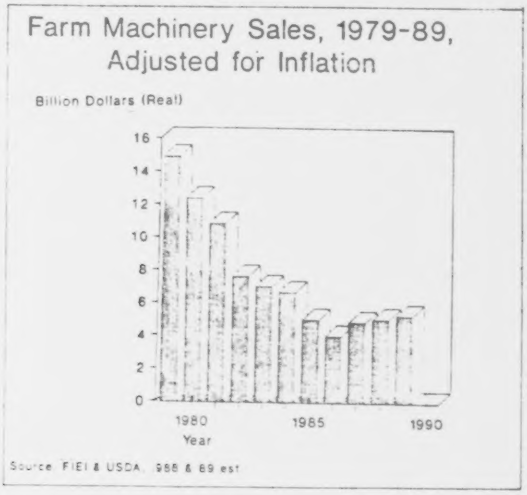
Statement by
John M. Tye, Chairman
Farm and Industrial Equipment Institute
before the
Committee on Agriculture
U.S. House of Representatives
July 13, 1989

Mr. Chairman and Members of the Committee: I am John Tye, President of Tye Company, headquartered in Lockney, Texas, and Chairman of the Farm and Industrial Equipment Institute, which is headquartered in Chicago. It is a pleasure for me to appear before you on behalf of the members of FIEI to discuss our views on the next farm bill. For the same reasons that farm policy is important to the health of the farm economy, it is also important to the health of the farm machinery business. We are therefore vitally interested in the outcome of these deliberations and appreciate the opportunity to participate.

Before looking to the future, let me say a few words about present policy and what we think it implies for the future. We believe that the Food Security Act of 1985, has served agriculture and the nation well. By nearly any measure of performance -- farm income, farm asset values, farm debt, carryover stocks, farm exports, farm program outlays -- the present situation is markedly improved over the situation of three or four years ago. We believe that this recovery is due in substantial measure to the policies that were adopted in 1985 and that this Committee deserves great credit for its foresight and its perseverance.

As you know, the farm machinery industry has gone through the same economic crisis that has battered many of America's farmers throughout much of this decade. Farm machinery sales fell dramatically from 1979 to 1986, as evidenced by the accompanying chart. A number of firms, including established industry leaders, fell victim to this economic calamity. Others, while surviving, have gone through major restructuring and down-sizing... some by 90%. Still, there are signs that our industry has turned the corner and that further improvement lies ahead. FIEI just yesterday released a revised industry outlook of which I am pleased to provide a copy to the Committee for its reference.

As with the recovery of the farm sector, we believe that the recent upturn in farm machinery sales is due in part to the fundamental soundness of the farm policy that was adopted in 1985. However, our industry's sales are still only about one third, in real terms, of what they were in 1979.



Farm Machinery Sales, 1979-89, Adjusted for Inflation

Source FIEI & USDA, 1988 & 89 est

We therefore urge the Committee, as it turns to writing the next farm bill, to remain on the same general policy course. That is, to remain on a policy course that is;

- market-oriented,
- export-oriented, and
- fiscally responsible.

To the extent changes are required, they should be prompted by the need to ensure the accomplishment of these objectives, not to embark on new directions.

As an organization, FIEI has not yet examined all the detailed program options to the extent we are ready to take positions. As the debate proceeds and as major options crystallize, we will study them and will be prepared to offer our views. In the meantime, we would like to offer general comments on several topics that are likely to arise in the course of the debate and that are of particular interest to our members.

Target prices/loan rates. Without prejudging the levels at which they are to be set or the manner in which they are to be applied, we favor the continued use of loans and deficiency payments. They have had a constructive and stabilizing influence on the farm economy. Thanks in part to the design of existing policy, program costs are also moderating and should continue to do so. Furthermore, these are programs that farmers know and understand. For these reasons, we believe that they should remain as the bulwark of the next farm bill.

Producer decision-making flexibility. Too frequently program terms and requirements interfere with the clear and effective transmission of market price signals, undermining achievement of one of the policy's principle objectives. These distortions not only handicap farmer efficiency, but they also undermine U.S. competitiveness abroad. Correcting this problem deserves high priority and we encourage debate and consideration of alternatives that provide more flexibility to the producer in selecting crops while still participating in the basic programs.

Conservation Reserve Program. The CRP has played a constructive role in making it possible to simultaneously reduce excessive stock levels and to engage in long-term conservation of fragile land. While we see a continuing role for this program, efforts to expand its size or broaden its scope deserve careful scrutiny. At its present size, the CRP has greatly reduced the flexibility of the Department of Agriculture to adjust its annual acreage reduction program in response to year-to-year changes in the supply-demand situation. In addition, the Committee will need to consider what comes behind the CRP as the original contracts begin to expire near the end of the next farm bill.

Export Enhancement Program. We believe that it is in the best interest of American agriculture, over the long-run, to continue to work for the removal of restrictions on international trade in farm products. However, we expect this to be a slow, halting process. In the interim, we believe that EEP should be retained for selective use to combat restrictive trade practices and to provide a continuing incentive to other countries to lower their trade barriers.

Environmental protection. The vitality and prosperity of agriculture is ultimately dependent on the wise use and enhancement of the natural resources that are the foundation of the industry. Threats to this resource base deserve careful and immediate attention, but in a spirit of informed reason. While there are clear interrelationships between the farm economy and the environment, we encourage the Committee to stand strong against well-meaning, but poorly studied environmental over-regulation. We also encourage this Committee to support USDA as the lead-agency in representing the government's role in addressing the environmental issues emerging from society's changing contract with production agriculture.

Basic agricultural research. In an era of agricultural plenty, it is easy to underestimate the importance of investments in basic agricultural research. But the returns to these investments are large and will probably grow even larger in the years ahead. Consumers have benefited enormously from past research investments in the form of higher quality diets at lower cost. Increasingly, U.S. agriculture will have to depend on its technological edge to be competitive in a growing world market. And, to the extent protection of the environment requires changes in farming practices, perhaps leading to reduced yields and lower returns, a new set of research demands is likely to emerge. For all these reasons, we urge the Committee to maintain its support of basic agricultural research. To this end, and as an example, Mr. Chairman, we would like to have included in the record this just released document from FIEI that suggests priorities for public-funded research related to "tillage and cultural" practices.

Mr. Chairman, FIEI members are also concerned with two other areas that will, no doubt, receive considerable attention. Many well-meaning (but not fully informed) groups are challenging the basic husbandry systems used in the production of meat, milk and eggs. We believe your committee can be of great assistance in providing reasonable resolutions to this debate. Last, but not least, we encourage the Committee to keep in mind that the issues surrounding the economic viability of production agriculture, and those creating the socio-economic problems of rural America, may well require separate approaches and resolutions. We should not try to fix two distinct problems with any one incomplete solution.

Thank you for your attention and for the opportunity to testify. We in FIEI look forward to working with your Committee in the months ahead.

(Attachments follow:)

RESEARCH PRIORITIES IMPORTANT TO THE FARM EQUIPMENT INDUSTRY:

TILLAGE & CULTURAL PRACTICES

PRIORITIES FOR PUBLIC FUNDED RESEARCH

FIEI
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A Study

The Farm and Industrial Equipment Institute, founded in 1893, represents more than 175 manufacturers of farm and specialized industrial and construction equipment. Member firms manufacture and sell more than 90 percent of the field and farmstead equipment used to mechanize and enhance the productivity of farms throughout North America. Through subsidiaries and affiliates, these companies produce much of the farm equipment used throughout the free world.

The Institute has often been asked to respond to requests from public funded researchers to identify and prioritize research needs of the farm equipment industry which would provide guidance for their work. In response to this and other similar requests, a study was undertaken during 1988 and 1989 and is now being issued as a report: "Research Priorities Important To The Farm Equipment Industry: Tillage and Cultural Practices."

Source of Information

The farm equipment industry used a questionnaire on which FIEI agricultural equipment manufacturers submitted their recommendations for three top priority research projects and further defined these priorities by stating objectives and beneficiaries to the research. The input was tabulated and then sent to additional industry experts and key farming customers of member companies. Each were asked to prioritize the suggestions.

To obtain an even broader cross section of input, an industry-wide meeting of Tillage & Crop Production Equipment Council, an affiliated organization of the Institute whose members manufacture tillage, seeding and chemical application equipment, was used as a workshop to review, revise and finalize the recommendations which are included in this report. Beyond the manufacturers, key technical, scientific and extension persons from the chemical and seed industries, colleges and universities and the USDA/ARS all participated in the review process.

Background

Agricultural research, undertaken in both the public sector and private industry, has been a major contributing factor to establishing the U.S. as the number one agricultural nation. High quality research must continue and even be selectively expanded for the U.S. to retain its leadership and protect its access to global markets.

Tillage and Cultural Practices are rapidly changing as a result of new technology, advancement in equipment design, availability of a wide range of chemicals, environmental values, soil conservation practices, water quality, biotech, etc.

Research often conjures up a vision of highly scientific, basic type endeavors. Our recommendations include basic and applied research. We also propose a compilation of broad based results relating to tillage and cultural practices from research that has been undertaken U.S.- wide in many colleges, universities, USDA/ARS, etc., including historic research that may have been done over a long period of time, i.e., seed placement. The need for all the types of research being recommended is of equal significance to the equipment industry and farmers alike.

FIEI believes it is not enough to merely list the industry's research recommendations. We also plan to continue our involvement by being a strong advocate for public funded research considered critical to agricultural and society's future.

Robert H. Tweedy
Deutz-Allis Corporation
Chairman, FIEI Agricultural
Research Committee

Harold Schramm
Case IH
Chairman, FIEI Tillage & Crop
Production Equipment Council

I. SOIL COMPACTION

CONSTRAINT	RESEARCH	RESEARCH ENTITY
Effect of soil compaction on crop yields.	Consolidate and organize existing data—identify further research needs for North America.	Universities, ARS
Effect of equipment on compaction.	Causes of [illegible] axle load vs. machine footprint as a function of machine [illegible] weight, speed of operation. Relieving compaction.	[illegible]
Incentives to control or vary soil compaction: economic benefit—cost/benefit, risk.	Economic studies.	Universities, ARS cooperative with industry.
Effect of farming practices on soil compaction—for example, timing, soil type, soil moisture.	Consolidate and organize existing data—identify further research needs for North America.	ASAE PM-45
Definition, Terminology, Standards of compaction and acceptable limits.	Performance type standards.	ASAE PM-45
Standardized Research Procedure.	Develop standard experiments for above listed projects for use by research organization.	ASAE PM-45 [illegible] ARS

General Recommendations:

Standardized Research Procedure was recommended to be made available to Universities worldwide. A central data base of "compaction data" is needed. Additionally, there is the need for previous and newly generated data to be compatible and comparable which must be the objective of the standard research procedure(s).

ARS-USDA/Agricultural Research Service
ASAE-American Society of Agricultural Engineers (PM-45 Cultural Practices Equipment)
NSDL-USDA ARS/National Soil Dynamics Laboratory, Auburn

II. IMPORTANCE OF "SEED/SOIL" ENVIRONMENT

CONSTRAINT	RESEARCH	RESEARCH ENTITY
Seedbed condition influence on seed germination, emergence and vigor.	Consolidate and organize existing data—identify further research needs for North America.	NSDL, Universities
Surface residue effect on seed germination, emergence and vigor.	Gather data and determine if more information and research is needed.	[illegible] Conservation Information [illegible]
Effect of soil type, climate and moisture variables on germination, emergence and vigor.	Gather data, organize and report.	ARS & Universities
Cost, benefit and risk of controlling seed environment.	Economic studies by practice by area of the country.	ARS & Universities
Effect of physical positioning of seed—spacing, depth.	Gatner data, organize and report.	ARS & Universities

General Recommendation:

Over the years, much research has been done in this area throughout the U.S. by many Universities, ARS, seed companies, etc. In general, there is no shortage of information. The principal need is to consolidate the research information and make it available to researchers, extension organizations, industry, etc. This is a large program but one that would serve a broad cross section of interests in America and a key recommended activity for USDA.

III. CONSERVATION

CONSTRAINT	RESEARCH	RESEARCH ENTITY
Water Quality—surface, ground.	Short and long term effects of fertilizer, pesticide use and related tillage practices.	Universities and USDA/NSDL
[redacted]	[redacted]	[redacted]
Waste Management—storage and disposal/animal and municipal.	Develop methods of waste disposal for current and probable legislative regulation—storage, application, costs, benefits, risks.	National Soil Erosion Laboratory at Purdue.
[redacted]	[redacted]	[redacted]
Energy Utilization.	How do newer combination tillage tools effect the amount and quality of residue—energy requirement and indirect and/or production costs.	National Soil Erosion Laboratory at Purdue.

General Information:

Standardized data collecting and reporting was strongly recommended to make possible research efforts comparable—if such standards do not exist, they need to be developed. Considerable data is necessary for reasonable and practical regulatory program.

IV. MACHINERY GUIDANCE AND CONTROL SYSTEMS AND REAL-TIME/DATA BASE MAPPING

CONSTRAINT	RESEARCH	RESEARCH ENTITY
Development of viable guidance and control systems.	Develop sensors of various parameters and apply pending economic justification.	Basic Science—ARS. System Development—Industry.
[redacted]	[redacted]	[redacted]
Economic Justification	Research to determine cost, benefit and reduction of risks using machines which have the ability to vary planting population, fertilizer rate, operating depth, chemical rates automatically using the sensors.	Universities & ARS
[redacted]	[redacted]	[redacted]

V. LOW INPUT SUSTAINABLE AGRICULTURE (CONVENTIONAL AND POLITICAL OPTIMIZATIONS OF INPUT SYSTEMS RESEARCH)

CONSTRAINT	RESEARCH	RESEARCH ENTITY
Maintain the Productivity of Agriculture.	What is the effect of current and prevailing cropping, cultural, tillage and pest control practices on the ability of various soils to maintain or increase long term productivity at various levels of production.	Universities & ARS
Low Input.	**What are the [illegible] farm inputs [illegible] machinery) [illegible]**	**[illegible]**

VI. UTILIZATION OF RESEARCH THAT HAS ALREADY BEEN COMPLETED

CONSTRAINT	RESEARCH	RESEARCH ENTITY
Lack of a National Data Bank	How to pull all available research information into a retrievable and useable form including cross reference.	ARS & Universities
Ineffective Delivery System	**How to more effectively communicate information to the farmer. (F[illegible])**	**ARS, Uni[illegible]**

VII. NEW OR EMERGING TECHNOLOGIES

CONSTRAINT	RESEARCH	RESEARCH ENTITY
Insecticide/herbicide Encapsulation.	Development, cost, benefit, demonstration, acceptance or rejection of slow release insecticides and herbicides.	Universities, ARS, Industry
Biotech.	**Development, cost, benefit, demonstration, acceptance or rejection and/or public policies.**	**Universities, ARS Industry**
Closed Chemical Handling.	Development, cost, benefit, demonstration, acceptance or rejection—special need for technical standard(s).	Universities, ARS Industry
Expert Systems.	**[illegible] program for [illegible] recommendations [illegible] selection [illegible] management.**	**[illegible]**
Intensive Cropping Practices.	Maintenance of soil productivity. environmental acceptability and requirements.	Universities, ARS
Nitrogen Fertilizer.	**[illegible]**	**[illegible]**

FIEI

STATE OF THE INDUSTRY

JULY 1989 UPDATE

Farm and Industrial Equipment Institute

Chicago, Illinois • July 11, 1989

Foreword

The Farm and Industrial Equipment Institute, founded in 1893, is today the major trade association for manufacturers of farm field machinery, farmstead equipment, farm and commercial grain storage and handling equipment and light industrial and construction equipment.

Three major "divisions" compose the Institute: the Agri-Equipment Division (AED), representing manufacturers of farmstead equipment; the Farm Equipment Division (FED), comprising manufacturers of farm field machinery; and the Industrial and Construction Equipment Division (ICED). Key Institute activities include: statistics, engineering, legislation and government relations, parts and product safety and liability.

FIEI-member agricultural equipment manufacturers in the U.S. provide the input for a July *State of the Industry Update* report, an industry forecast compiled from confidential surveys conducted in June.

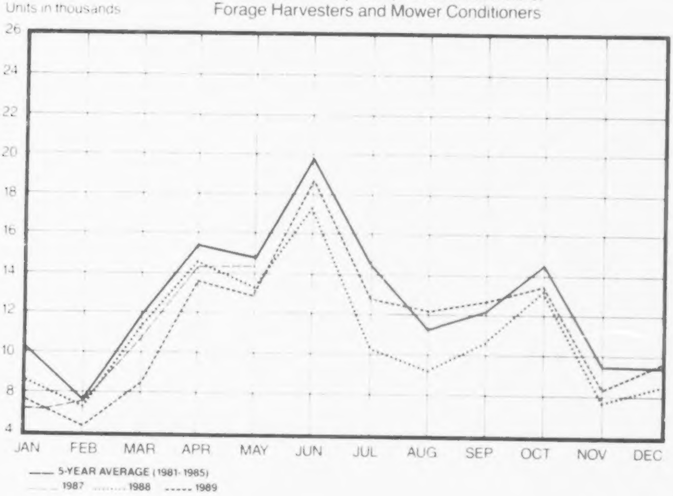
Survey Methods

This report is based on survey responses from 27 Farm Equipment Division member companies and from 22 Agri-Equipment Division member companies, representing more than two-thirds of the total related product units sold by the industry. Forecasts represent the *median* point in the range of responses from member companies in each product line; member companies responded only to questions about the specific products they manufacture or market. Responses represent member companies' forecasts for the industry *as a whole*, rather than for their particular companies.

In each graph, the large, boldfaced percentage figure is the industry median forecast for 1989 sales in that particular product category. The dots pinpoint individual company predictions for industry sales, showing graphically the distribution of member companies' forecasts.

U.S. Retail Sales

Tractors (all horsepower), Combines, Balers, Forage Harvesters and Mower Conditioners



FIEI

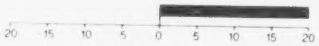
STATE OF THE INDUSTRY

JULY 1989 UPDATE

FARM EQUIPMENT DIVISION FORECASTS

All field equipment
U.S. retail sales (dollars)*
1989 vs. 1988

+8.0%

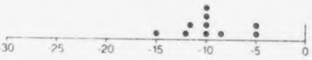


Respondents predicting sales increase	26
Respondents predicting no change in sales	1
Respondents predicting sales decline	0

*Bar represents a range of responses from 0 to +20%.

2WD farm tractors, under 40 HP
U.S. retail sales
1989 vs. 1988

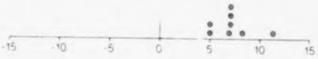
−10.0%



1990 forecast (units)	49,760
1989 forecast (units)	49,267
1988 actual (units)	54,741
1987 actual (units)	59,902
1986 actual (units)	61,648

2WD farm tractors, 40 to 100 HP
U.S. retail sales
1989 vs. 1988

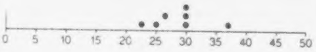
+7.0%



1990 forecast (units)	36,539
1989 forecast (units)	35,475
1988 actual (units)	33,154
1987 actual (units)	30,718
1986 actual (units)	30,848

2WD farm tractors, 100 HP & over
U.S. retail sales
1989 vs. 1988

+30.0%

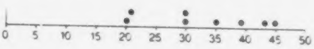


1990 forecast (units)	21,588
1989 forecast (units)	20,959
1988 actual (units)	16,122
1987 actual (units)	15,911
1986 actual (units)	14,262

FARM EQUIPMENT DIVISION FORECASTS

4WD farm tractors
U.S. retail sales
1989 vs. 1988

+32.5%



1990 forecast (units)	3.761
1989 forecast (units)	3.616
1988 actual (units)	2.729
1987 actual (units)	1 653
1986 actual (units)	2.037

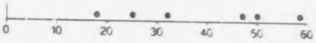
All farm tractors
U.S. retail sales
1989 vs. 1988

+2.4%

1990 forecast (units)	111,648
1989 forecast (units)	109,317
1988 actual (units)	106,746
1987 actual (units)	108,184
1986 actual (units)	108,795

Self-propelled combines
U.S. retail sales
1989 vs. 1988

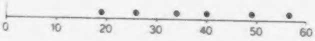
+39.5%



1990 forecast (units)	9 743
1989 forecast (units)	8.363
1988 actual (units)	5.995
1987 actual (units)	7,172
1986 actual (units)	7.660

Cornheads
U.S. retail sales
1989 vs. 1988

+37.0%



1990 forecast (units)	Data not available
1989 forecast (units)	Data not available
1988 actual (units)	Data not available
1987 actual (units)	3.924
1986 actual (units)	4,716

STATE OF THE INDUSTRY

JULY 1989 UPDATE

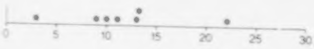
Forage harvesters
U.S. retail sales
1989 vs. 1988

+6.0%

1990 forecast (units)	2,597
1989 forecast (units)	2,549
1988 actual (units)	2,405
1987 actual (units)	2,280
1986 actual (units)	2,164

Balers, bales under 200 lbs.
U.S. retail sales
1989 vs. 1988

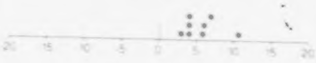
+11.1%



1990 forecast (units)	6,372
1989 forecast (units)	6,372
1988 actual (units)	5,735
1987 actual (units)	5,352
1986 actual (units)	5,734

Balers, bales 200 lbs. & over
U.S. retail sales (units)*
1989 vs. 1988

+4.9%

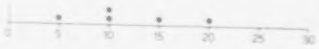


1990 vs. 1989 forecast	+2.0%
1989 vs. 1988 forecast	+4.9%

*Historical data are not available.

Windrowers
U.S. retail sales
1989 vs. 1988

+10.0%



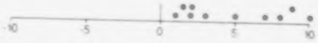
1990 forecast (units)	1,915
1989 forecast (units)	1,877
1988 actual (units)	1,706
1987 actual (units)	1,570
1986 actual (units)	1,461

FARM EQUIPMENT DIVISION FORECASTS

Mower-conditioners U.S. retail sales

1989 vs. 1988

+4.0%

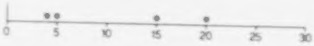


1990 forecast (units)	11,485
1989 forecast (units)	11,485
1988 actual (units)	11,043
1987 actual (units)	11,239
1986 actual (units)	10,898

Disk harrows U.S. retail sales (units)*

1989 vs. 1988

+10.0%



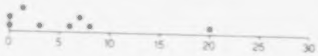
1990 vs. 1989 forecast	+ 4.7%
1989 vs. 1988 forecast	+10.0%

*Historical data are not available.

Field cultivators U.S. retail sales (units)*

1989 vs. 1988

+4.5%



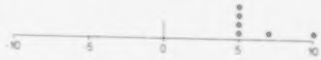
1990 vs. 1989 forecast	+3.0%
1989 vs. 1988 forecast	+4.5%

*Historical data are not available.

Chisel plows U.S. retail sales (units)*

1989 vs. 1988

+5.0%



1990 vs. 1989 forecast	+3.0%
1989 vs. 1988 forecast	+5.0%

*Historical data are not available.

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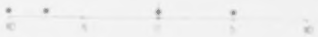
STATE OF THE INDUSTRY

JULY 1989 UPDATE

Grinder mixers
U.S. retail sales
1989 vs. 1988

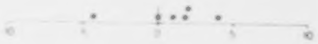
−3.8%



1990 forecast (units)	2,555
1989 forecast (units)	2,555
1988 actual (units)	2,656
1987 actual (units)	2,473
1986 actual (units)	1,797

Manure spreaders
U.S. retail sales (units)*
1989 vs. 1988

+1.4%



1990 vs. 1989 forecast	0.0%
1989 vs. 1988 forecast	+1.4%

*Historical data are not available

PARTS OUTLOOK

Farm Equipment Division
Parts sales
U.S. retail sales (dollars)*
1989 vs. 1988

+5.0%

Respondents predicting sales increase	22
Respondents predicting no change in sales	3
Respondents predicting sales decline	2

*Bar represents a range of responses from −5% to +15%.

Agricultural Equipment Division
Parts sales
U.S. retail sales (dollars)*
1989 vs. 1988

+7.5%

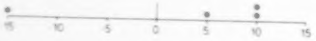
Respondents predicting sales increase	18
Respondents predicting no change in sales	4
Respondents predicting sales decline	0

*Bar represents a range of responses from 0% to +15%.

AGRI-EQUIPMENT DIVISION

Augers & elevators
U.S. retail sales (dollars)*
1989 vs. 1988

+7.5%

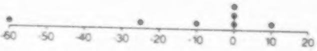


1990 vs. 1989 forecast	+0.0%
1989 vs. 1988 forecast	+7.5%

*Historical data are not available

In-bin crop dryers
U.S. retail sales (dollars)*
1989 vs. 1988

0.0%

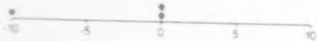


1990 vs. 1989 forecast	+10.0%
1989 vs. 1988 forecast	0.0%

*Historical data are not available

Batch crop dryers
U.S. retail sales (dollars)*
1989 vs. 1988

0.0%

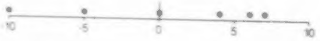


1990 vs. 1989 forecast	Data not available
1989 vs. 1988 forecast	0.0%

*Historical data are not available

Dairy & beef
mechanization equipment
U.S. retail sales (dollars)*
1989 vs. 1988

+2.0%



1990 vs. 1989 forecast	Data not available
1989 vs. 1988 forecast	+2.0%

*Historical data are not available

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STATE OF THE INDUSTRY

JULY 1989 UPDATE

AGRI-EQUIPMENT DIVISION

Hog mechanization equipment
U.S. retail sales (dollars)*
1989 vs. 1988

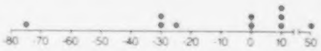
−2.5%

1990 vs. 1989 forecast	Data not available
1989 vs. 1988 forecast	−2.5%

*Historical data are not available

Grain bins
U.S. retail sales (dollars)*
1989 vs. 1988

0.0%



1990 vs. 1989 forecast	+12.5%
1989 vs. 1988 forecast	0.0%

*Historical data are not available

Chairman
JOHN M. TYE
President
The Tye Company

Vice Chairman
PHIL F. JENKINS
President
Sweepster Jenkins Equipment Company

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EMMETT BARKER · PRESIDENT

June 13, 1989
20/70/150/D5/P

To: TRADE PRESS AND FLASH REPORT SUBSCRIBERS

From: E. G. Berzanski, Director of Statistics
(contact Rita Zimmer, Statistical Assistant)

Subject: MAY 1989 FED FLASH REPORT

	UNIT RETAIL SALES					
	MAY			JAN.-MAY		
EQUIPMENT	1989	1988	%	1989	1988	%
Farm Wheel Tractors:						
2-Wheel Drive						
Under 40 HP	5,601	6,301	-11.1%	19,749	24,824	-20.4%
40 & Under 100 HP	3,447	3,059	12.7%	14,941	14,112	5.9%
100 & Under 140 HP	475	332	43.1%	2,287	2,016	13.4%
140 HP & Over	1,097	866	64.7%	6,626	4,651	42.5%
Total 2-Wheel Drive	10,620	10,358	2.5%	43,603	45,603	-4.4%
4-Wheel Drive						
Under 200 HP	95	78	21.8%	506	414	22.2%
200 HP & Over	252	129	95.3%	1,289	728	77.1%
Total 4-Wheel Drive	347	207	67.6%	1,795	1,142	57.2%
TOTAL FARM WHEEL TRACTORS	10,967	10,565	3.8%	45,398	46,745	-2.9%
Combines (Self-Propelled)	441	206	114.1%	1,685	1,789	-5.8%
Rectangular Balers	816	696	17.2%	2,155	1,718	25.4%
Forage Harvesters (Shear Bar Type)	233	197	18.3%	593	555	6.8%
Mower Conditioners	1,942	1,658	17.1%	4,204	3,824	9.9%

These data are, in part, estimates which are subject to revisions when final detail data become available. Because of the seasonal nature of the industry comparisons of monthly data from one period to another should be done with extreme caution. These data represent most, but not all, of the manufacturers in each product category being sold at retail in the fifty states and the District of Columbia.

EGB/rz

STATEMENT OF
Bill Barton Jr., Bonus Crop Fertilizer
Bay City, Texas
on behalf of
The Fertilizer Institute
July 13, 1989

Mr. Chairman, members of the committee, The Fertilizer Institute (TFI)[1] appreciates the opportunity to express its views on issues related to the formulation of the 1990 farm bill.

The centerpiece of the 1990 farm bill legislation should be to build on the trade enhancement successes created in the 1985 farm bill. The goal simply should be to assure the United States' position as a long term competitive supplier of farm commodities into world markets. Meeting world market competition offers the best hope for a sound market based domestic agriculture policy. A strong export promotion and market expansion effort must accompany any effort to let the marketplace dictate pricing levels. Only through such an export market can the United States farmers maximize their efficiency that make them cost competitive with any farmer in the world and promote economic benefits for all segments of agriculture.

The 1990 farm bill should minimize acreage reduction programs. The 1985 farm bill provided several options for USDA to remove acres from production to control commodity supply and hold down the cost of commodity programs. These programs include acreage reduction programs (ARPs), the conservation reserve program (CRP), and paid land diversion. The Omnibus Budget Reconciliation Act of 1987 added yet another land set aside program, 0/92.

These programs combined to produce the largest land set-aside program in U.S. agriculture history. U.S. took nearly 80 million acres out of production in the 87/88 crop year -- higher than the 1983 PIK record of 78 million acres. These high set aside acres are a disaster for rural America -- forcing a downsiding of the agriculture base and the infrastructure that supports American farmers.

And worst of all, during our efforts to reduce acreage, plantings in export aggressive countries such as Brazil, Argentina, and Australia increased and may have permanently shifted the production balance away from the U.S.

Today, because of increased exports and the drought of 1988,

---

[1] TFI is a voluntary, non-profit association whose members represent approximately 95 percent of the domestic fertilizer production in the United States. TFI's membership includes: producers, manufacturers, traders, retail dealers and distributors of fertilizer materials. Its members are major shippers, receivers, and exporters of fertilizer and fertilizer materials and are a vital link in the nation's agriculture system.

U.S. commodity supply levels are in a much better balance. The U.S. does not have record commodity surpluses that had such a major influence in developing programs in the 1985 farm bill. Thus, the 1990 farm bill should minimize acreage reduction programs.

The only acreage reduction program needed in the 1990 farm bill is the CRP. There are currently approximately 31 million acres signed up in the CRP with a goal of 45 million in 1990. The Fertilizer Institute supported the CRP in the 1985 farm bill debate and we would urge Congress to broaden the land eligibility criteria for inclusion in the CRP in the new farm bill. Wetlands, sinkholes and lands utilized in conservation practices such as filter strips, windbreaks, shelter belts and wildlife habitats should be available to bid into the CRP. It only makes good sense to remove from production those lands that add to conservation practices and lands that cannot be farmed without potential environmental harm. The eligibility of sensitive environmental land will be needed to reach the stated goal of 45 million acres for the CRP.

The 1990 farm bill should provide farmers more planting flexibility. " Triple base" and a return to a form of Normal Cropland Acreage (NCA) are two concepts that have emerged under the flexibility banner. The 1985 farm programs did make corn, wheat, barley and cotton production more attractive at the expense of soybeans and oats. Farmers have continued to plant crops to protect their program base to ensure eligibility for future benefits -- rather than respond to market signal to plant other crops. A small step for flexibility was taken in 1989 when farmers were given the opportunity to plant 10 to 25 percent of their base acreage to soybeans or sunflowers and still maintain their feedgrain, wheat or cotton base.

The 1990 farm bill should greatly increase farmers flexibility to respond to price and market requirements. With greater flexibility, farmers can adopt crop rotations systems best suited for their farm operation. The conservation and agronomic benefits to crop rotation are well known. Thus, farmers need the planting flexibility to improve the production systems on their farm.

One of the biggest challenges facing agriculture today is responding to groundwater contamination by agriculture activity. The 1990 farm bill is seen by many as the place where agriculture must take the initiative in dealing with the problem to preclude further regulation of crop production activities by EPA. Unfortunately, credit has not been given to the programs initiated in the 85 farm bill impacting groundwater quality. Programs such as swampbuster, sodbuster, CRP and the requirement for a conservation plan by 1990 are having a positive impact on groundwater quality.

Certainly, more can be done.

The fertilizer industry believes through research, increased farmer education, public information, and the adoption of agronomic best management practices, many of our nation's water quality problems with nitrogen can be prevented right from the start.

TFI is supportive of legislation H.R. 2258 introduced by Rep. Stangeland and others, and S. 779 supported by over 30 co-sponsors that directs USDA to provide farmers more practical guidance, more education, and more technology on agronomic best management. BMPs are agronomic practices that are least-cost to farmers which not only improve water quality but sustain desired crop levels that serve to keep food prices at a minimum for consumers.

Similar legislation on BMPs was adopted by the House Agriculture Committee in the 100th Session of Congress and passed the full House in a groundwater research bill by a vote of 399 to 15.

BMP technology has been researched and developed for crop and sight specific implementation. Attachment 1 outlines the potential benefits of implementing a BMP program on the farm. The material, developed by the Potash and Phosphate Institute (PPI) provides examples of BMPs that a farmer might consider producing hard red winter wheat in Kansas, corn in north central Iowa, cotton in the Mississippi Delta and soft red winter wheat in Virginia. BMP programs are most successful when crop production and soil conservation practices are integrated into a package proven best for that location.

The adoption of BMPs plus maximum flexibility within government programs will give farmers the opportunity to develop farming systems that maximize production efficiency and environmental protection. Given the opportunity, farmers will choose the most efficient use of plant nutrients regardless of sources (i.e. commercial fertilizer, crop rotation with legumes, or animal manure).

The 1990 farm bill should not have programs that are an economic disincentive to farmers from adopting efficient crop production systems. It should not, however, have programs that provide incentives or subsidizes for one source of nutrients to the detriment of another.

One of the biggest problems facing the fertilizer industry in legislative efforts to address groundwater problems are the misconceptions about fertilizer (i.e. plant nutrients nitrogen, phosphate and potash). Attached is a booklet "Fertilizer: Perception and Reality". It was developed to provide a better understanding of these essential components of crop production. The information aims at clearing away the mystery surrounding fertilizer, focuses on several common misperceptions, and responds with straightforward facts about soil and plant nutrients.

The challenge today is to assure that suggested approaches to safeguarding the environment are realistic, effective and based on proven research. With these goals the results can only help ensure a truly sustainable American agriculture.

(Attachments follow:)

IMPLEMENTING PROGRAMS FOR BEST MANAGEMENT PRACTICES

THE CONCEPT of Best Management Practices (BMPs) carries significance for soil and water conservation, other environmental protection, and agronomic crop production decisions. There are many potential benefits of implementing BMP programs on farms.

Listed here are some features of BMP programs:

- ✔ BMP technology is based on research results of land grant universities.
- ✔ BMP Programs should be continually improved through research and the implementation of new technology.
- ✔ BMP Programs encourage good crop management.
- ✔ BMP Programs include good soil and water conservation practices.
- ✔ BMP Programs have high input efficiency.
- ✔ BMP Programs are farm, soil, and crop specific.
- ✔ BMP Program adoption depends on education.
- ✔ BMP Programs provide flexibility to maintain crop production at desired levels.
- ✔ BMP Programs provide flexibility to release most sensitive environmental-risk acres on a farm.
- ✔ BMP Programs are most successful when crop production and soil conservation practices are integrated into a package proven best for that location. The more proven practices are adopted, the greater the success.

The following pages are examples of how BMP decisions can be adapted to various crops, soil types, and geographic areas. The technology for these practices has been researched and developed. Education and demonstration may be needed to build implementation.

Crop production information prepared by agronomists of the Potash & Phosphate Institute (PPI), based on research and extension demonstration information from USDA and land grant universities.

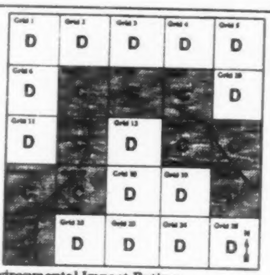
BEST MANAGEMENT PRACTICES (BMPs) for HARD RED WINTER WHEAT IN KANSAS

Data for this example.

Field size:	100 acres	Average wheat yield for this soil:	31 bu/A
Land description:	Harney silt loam. A Class One productivity soil in the central dryland region of Kansas.	Current wheat yield base for this farmer:	31 bu/A

Selected Soil and Water Conservation BMPs:

Factor	Current Practice	Recommended BMP	Environmental Advantages
Terraces	Partial	Complete	Slows water run-off; less soil erosion
Grass waterways	None	Install grass waterways	Less soil loss from surface drain areas (see map)
Tillage	Disk-sweep, clean till	Chemical fallow-sweep	Reduce soil erosion; increase water infiltration
Wind erosion	No control, except emergency chisel	Adequate surface residue from chemical fallow	Reduce soil loss due to wind
Land environmental impact rating	None	Yes (see map)	



Environmental Impact Rating:

Designation	Rating	Grid Numbers
A	Very Severe	none
B	Severe	none
C	Moderate	7,8,9,12,14,15,16,17,20,21
D	Slight	all others

▨ **Indicates Potential Release Acres When BMP Management Is Used On Remaining Acres.**

NOTE: The map at right represents a 100-acre field. A soil and water conservation plan should include a rating of the land as to its vulnerability to environmental pollution. This rating can be done on a grid basis (see map) so that those acres most vulnerable to erosion and water pollution can be released (set-aside) first as farmers adopt BMPs. In many situations, the erodible land is the least productive. It can be released from cropping without reducing production on the individual farm.

Selected Agronomic BMPs:

Factor	Current Practice	Recommended BMP	Environmental Advantages
Certified seed	Bin-run seed	Use certified seed	Quicker emergence
Variety	Old standard (tall-type)	Best semidwarf in tests	Quicker ground cover
Row-spacing	12-inches	10-inches or 6/14 paired rows	Uniform ground cover
Seeding rate	60 lb/A	Precision planting 280-290 seeds/sq. yard	Earlier cover to protect soil
Rotation	Wheat-fallow-wheat	Sorghum-fallow-wheat	Less pest pressure
Weeds	Occasional spring spray	Chemical fallow, scouting for spring spray	Less soil erosion; chemicals used only when needed; conserve moisture
Diseases	Seed treatment	Seed treatment plus scouting for foliar disease thresholds; potassium chloride (KCl) fertilizer.	Chemicals used only when needed
Nitrogen (N) Management*			
Soil test	None	Soil nitrate test 7 ppm NO_3-N= 56 lb/A 2 feet	N efficiency
Rate	60 lb/A, no basis	100 lb/A based on yield goal and nitrate test	N efficiency
Timing	All preplant	Split: 40 % preplant; 10% at seeding; 50% at tillering	N efficiency

*If animal manure is available for use as a nutrient source, it should be analyzed for N content, applied prior to seeding and incorporated by tillage. The amount of N available from manure would be taken into account in recommendations for preplant N applications. Soluble salt accumulations from manure should be closely monitored under dryland conditions. The practicality of manure use would also be affected by choice of tillage system.

(see other side)

Factor	Current Practice	Recommended BMP	Environmental Advantages
Phosphorus (P) Management			
Soil test	None	15 ppm Bray P-1	
Rate, timing	None	45 lb/A P_2O_5 to build to high soil test level; apply at seeding	Early ground cover
Potassium (K) Management			
Soil test	None	250 ppm (high)	
Rate, timing	None	35 lb/A K_2O as KCl; apply at tiller with N	Reduces chemical input needs; chloride helps disease control
Sulphur (S) Management			
Soil test	None	4 ppm SO_4-S	
Rate, timing	None	20 lb/A S, topdressed with N and K	N, P efficiency

Results and Summary:

This example is for the central dryland wheat belt in Kansas. Current practices would produce yields in the 30 to 35 bu/A range. Farmers adopting BMPs as outlined would increase the yield potential to the 60 bu/A range. The yield advantage for BMP production provides flexibility to release acreage most environmentally sensitive (see map on other side) and still maintain current total production potential. It would also provide flexibility to increase total production when demand warrants. The implementation of BMPs also increases nutrient efficiency and water use efficiency, while reducing soil erosion potential. The table below summarizes some of the production, environmental and economic advantages of a BMP Program.

Approximate Effects of BMPs on Yield*

Use of certified seed:	4-8 bu/A increase over bin-run seed.
Better weed control:	4-20 bu/A increase over current practice.
Improved fertilizer mgm't.:	8-20 bu/A increase over current practice.
Improved water storage:	5-12 bu/A increase over current practice.
Erosion control:	3-10 bu/A increase over current practice.
Disease control:	2-18 bu/A increase over current practice

*Estimated yield increases are not necessarily additive. Interaction effects with other inputs can change the response. The responses shown are averages from various research trials where these inputs were investigated.

Possible Advantages of BMP Program for Hard Red Winter Wheat Production in Kansas

Factor	Current Practice	Recommended BMPs
Expected yield, bu/A	35	60
Actual yield, bu/A	31	58
Acre release potential from 100 acres to maintain same production	—	46
Total production:		
with 100 acres, bushels	3,100	—
with 54 acres, bushels	----	3,132
N rate, lb/A	60	100
N efficiency, bu/lb	0.51	0.58
(Higher protein also results with BMP system.)		
N removed in the grain, lb/A	36	79
N remaining (most in residue), lb/A	24	21
Total N applied, lb	6,000 (100 acres)	5,400 (54 acres)
Total N remaining (most in residue), lb	2,400 (100 acres)	1,134 (54 acres)
Water use efficiency, bu/in	2.6	4.2
Production costs, $/A	130	175
Production costs, $/bu	4.19	3.01
Production costs for field		
100 acres, $	13,000	----
54 acres, $	----	9,450
Profit, $/field 100 acres	-1,375 (loss)	----
54 acres	----	+3,234

NOTE: BMP adoption allows this farmer to release land with the highest degree of sensitivity to environmental factors (see map on other side) and to maintain, or improve, total farm production.

Basis for calculations: Kansas State University. N, $0.20/lb; P_20_5, $0.22/lb; K_2O, $0.12/lb; S, $0.20/lb. Additional harvest charge, $0.25/bu. Fungicide, $8.00/A. Value of wheat: current practice, 11.0% protein, $3.75/bu; BMP practices, 13.0% protein, $4.05/bu.

Prepared by agronomists of the Potash & Phosphate Institute (PPI) based on research and extension demonstration information from Kansas State University.

BEST MANAGEMENT PRACTICES (BMPs) for CORN (GRAIN) PRODUCTION IN NORTHCENTRAL IOWA

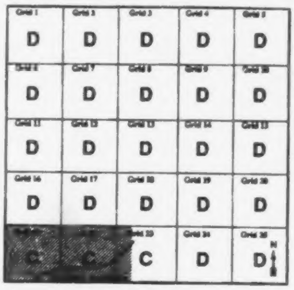
Data for this example.

Field size:	100 acres	Average corn yield for this soil:	150 bu/A
Land description:	Clarion-Nicollet-Webster. A Class One soil, very gently rolling with slight surface drainage waterways.	Current corn grain yield for this farmer:	150 bu/A

Selected Soil and Water Conservation BMPs:

Factor	Current Practice	Recommended BMP	Environmental Advantages
Tillage	Fall chisel	Ridge-plant	Water efficiency; less soil erosion
Compaction	Moderate	Only in controlled wheel tracks.	Water infiltration; nutrient efficiency
Land environmental impact rating	None	Yes (see map)	

Note: The map at right represents a 100 acre field. A soil and water conservation plan should include a rating of the land as to its vulnerability to environmental pollution. This rating can be done on a grid basis (see map) so that those acres most vulnerable to erosion and water pollution can be released (set-aside) first as farmers adopt BMPs. In many situations, the erodible land is the least productive. It can be released from cropping without reducing total production on the individual farm.



Environmental Impact Rating:

Designation	Rating	Grid Numbers
A	Very Severe	none
B	Severe	none
C	Moderate	21, 22, 23
D	Slight	all others

▨ **Indicates Potential Release Acres (9) When BMP Management Is Used On Remaining Acres.**

Selected Agronomic BMPs:

Factor	Current Practice	Recommended BMP	Environmental Advantages
Plant population	23,000/A	27,000/A	Nutrient and water efficiency
Planting date	April 28 to May 8	April 26 to May 3	Earlier ground cover
Hybrid maturity	105-day	115-day	Higher yield potential
Weed control	Preplant incorporated, full rate	Band apply grass herbicide; scout and use only if needed	Less chemical used
Disease control	None	Scout; limited need with ridge-plant	Chemicals used only as needed
Nitrogen (N) Management			
Soil test	No	Soil nitrate test 6 ppm NO_3-N, 0-1 foot	N efficiency
Rate*	135 lb/A	130 lb/A	Less N used
Timing	All preplant broadcast	25 lb/A starter, 105 lb/A point-injected at V6 growth stage	Greater N efficiency and less subject to loss

* N credits from manure would be substituted whenever available. Legume N credits have been used for soybeans in both cases.

(see other side)

Factor	Current Practice	Recommended BMP	Environmental Advantages
Phosphorus (P) Management			
Soil test	Yes-high	Yes-high	
Rate, timing	60 lb/A, broadcast in spring	35 lb/A fall, 25 lb/A band starter	Better efficiency of P and other inputs
Potassium (K) Management			
Soil test	Yes-high	Yes-high	
Rate, timing	50 lb/A , broadcast in spring	35 lb/A fall, 15 lb/A band starter	Better efficiency of N and P
Sulphur (S) Management			
Soil test	No	Yes, but not common	
Rate, timing	None	Application in starter, by soil test and/or plant analysis	Better early growth; efficiency of N and P
Micronutrients			
Soil test	No	Yes, but deficiencies uncommon	
Nutrient, rate	None	Where indicated by soil test, 1-2 lb/A zinc in starter	Enhanced plant growth; efficiency of other nutrients

Note: BMPs already used in current practice are: rotation with soybeans; P and K soil tests; scouting for insects; drainage tile; and good soil pH level.

Results and Summary:

This example is for northcentral Iowa, on a very productive soil. In this example, the management is good, but can be improved with further adoption of several BMPs as indicated above. Yield potential could be increased 10 to 15% which gives the farmer flexibility to release acreage most environmentally sensitive (see map on other side). The implementation of BMPs also increases nutrient efficiency and water use efficiency. The table below summarizes some of the advantages for adoption of BMPs.

Approximate Effects of BMPs on Yield*

Ridge-plant and starter fertilizer	5 to 9 bu/A
Earlier planting of longer season hybrid	5 to 7 bu/A
Increase population	3 to 7 bu/A

*Estimated yield increases are not necessarily additive. Interaction effects with other inputs can change the response. The responses shown are averages from various research trials where these inputs were investigated.

Possible Advantages of BMP Program for Corn (Grain) Production in Northcentral Iowa

Factor	Current Practice	Recommended BMP
Expected yield, bu/A	150	165
Acre release potential from 100 acres to maintain same production	----	9
Total production		
with 100 acres, bushels	15,000	----
with 91 acres, bushels	----	15,015
Phosphorus efficiency, bu/lb	2.5	2.8
N efficiency, bu/lb	1.1	1.3
N remaining (most in residue), lb/A	60	40
Total N applied, lb	13,500 (100 acres)	11,830 (91 acres)
Total N remaining (most in residue), lb	6,000 (100 acres)	3,640 (91 acres)
Water use efficiency, bu/inch	7.0	7.7
Production costs, $/A	330	350
Production costs, $/bu	2.20	2.12
Production costs for field		
100 acres, $	33,000	----
91 acres, $	----	31,850
Profit, $/field 100 acres	4,500	----
91 acres	----	5,687

NOTE: BMP adoption allows this farmer to release land with the highest degree of sensitivity to environmental factors (see map on other side) and maintain, or improve, total farm production.

Basis for calculations: Iowa State University . Corn price at $2.50/bu.

Prepared by agronomists of the Potash & Phosphate Institute (PPI) based on research and extension demonstration information from Iowa State University and University of Minnesota.

BEST MANAGEMENT PRACTICES (BMPs) for IRRIGATED LINT COTTON PRODUCTION IN THE MISSISSIPPI DELTA

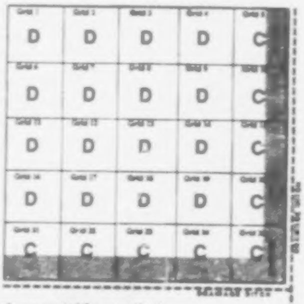
Data for this example.

Field size:	100 acres	Average lint cotton yield for this soil:	800 lb/A
Land description:	Well drained sandy loam soil with good surface drainage.	Current lint cotton yield for this farmer:	800 lb/A

Selected Soil and Water Conservation BMPs:

Factor	Current Practice	Recommended BMP	Environmental Advantages
Grass drainage ways	None	Yes	Grass drainage way across end rows to drainage ditch.
Land environmental impact rating	None	Yes (see map)	

NOTE: The map at right represents a 100-acre field. A soil and water conservation plan should include a rating of the land as to its vulnerability to environmental pollution. This rating can be done on a grid basis (see map) so that those acres most vulnerable to erosion and water pollution can be released (set-aside) first as farmers adopt BMPs. In many situations, the erodible land is the least productive. It can be released from cropping without reducing total production on the individual farm.



Environmental Impact Rating:

Designation	Rating	Grid Numbers
A	Very Severe	none
B	Severe	none
C	Moderate	5, 10, 15, 20, 21 - 25
D	Slight	all others

▨ **Indicates Potential Release Acres When BMP Management Is Used On Remaining Acres.**

Selected Agronomic BMPs:

Factor	Current Practice	Recommended BMP	Environmental Advantages
Tillage	Disking; fall subsoiling; several diskings in fall and winter	Fall subsoiling; spring disking	Fuel savings; less particulate matter in atmosphere; erosion control
Seeding rate	70,000/A	55,000/A	Better root and plant growth
Variety	Older standard	Best in comparison test	Greater input efficiency
Nitrogen (N) management	80 lb/A in one application	100 lb/A with 30-40 lb/A in starter, 60-70 lb/A sidedress, depending on soil and/or plant nitrate tests	Greater N efficiency
Lime and pH	No soil test, no lime applied, pH in 5.5 range	Soil test and apply lime to bring pH to 5.8	Improves nutrient efficiency
Phosphorus (P) and potassium (K) management	No soil test to guide P and K application; very little applied	P and K fertilization according to soil test; 80 lb/A K_2O rate on medium soil test, 120 lb/A on low soil test	Improved crop growth; less water runoff; improved lint quality; improved disease resistance
Sulphur (S) and micronutrients	No soil test or plant analysis for guidance; none applied	Apply S, boron (B), and other micronutrients according to soil test and/or plant analysis	Groundwater protection; improved economics for sustainability
Crop protection	Broadbased pesticide use	Crop protection based on field scouting and other diagnostic techniques	Improved N efficiency; groundwater protection; improved productivity; improved crop quality

(see other side)

Results and Summary:

This example is for an excellent soil in the Mississippi Delta region. Current practices would produce lint cotton yields in the 800 lb/A range. Farmers adopting BMPs shown above would increase yield potential to the 1,100 lb/A range. The yield advantage for the BMP production would provide the flexibility to release acreage most environmentally sensitive (see map on other side) and still maintain current total production potential. It would also provide flexibility to increase total production when demand warrants. The implementation of BMPs increases nutrient efficiency and water use efficiency, while reducing soil erosion potential. The table below summarizes some of the production and environmental advantages of a BMP Program.

Approximate Effects of BMPs on Yield[*]

Seeding rate: 150 lb/A increase over current practice.
Variety: 150 lb/A increase over current practice.
Fertilizer management: 250 lb/A increase over current practice.

[*]Estimated yield increases are not necessarily additive. Interaction effects with other inputs can change the response. The responses shown are averages from various research trials where these inputs were investigated.

Possible Advantages of BMP Program for Irrigated Lint Cotton Production in the Mississippi Delta

Factor		Current Practice	Recommended BMP
Expected yield, lb/A		800	1,100
Acre release potential from 100 acres to maintain same production		—	27
Total production:	with 100 acres, lb/A	80,000	—
	with 73 acres, lb/A	—	80,300
N rate, lb/A		80	100
N efficiency, lb lint/lb N		8	11
N removed in cotton, lb/A		52	71
N remaining (most in residue), lb/A		28	29
Production costs for field,	$/A	$400	$500
	$/lb lint	$0.50	$0.45
Profit, $/field	100 acres	$16,800	—
	73 acres	—	$20,513

NOTE: **BMP adoption allows this farmer to release land with the highest degree of sensitivity to environmental factors (see map on other side) and maintain, or improve, total farm production.**

Basis for calculations: N, $0.20/lb; K_2O, $0.12/lb; lime, $10/A; harvest, $0.10/lb; seed, $0.60/lb; cotton, $0.71/lb.

Prepared by agronomists of the Potash & Phosphate Institute (PPI) based on research and extension demonstration information from the University of Arkansas and Mississippi State University.

BEST MANAGEMENT PRACTICES (BMPs) for SOFT RED WINTER WHEAT IN VIRGINIA

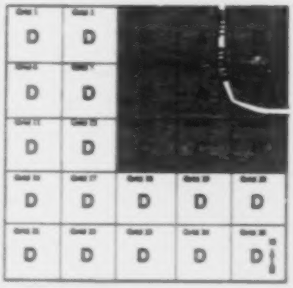
Data for this example.

Field size:	100 acres	Average wheat yields for this soil:	45 bu/A
Land description:	Moderately rolling Piedmont soil with small stream through one corner (see map).	Current wheat yield base for this farmer:	50 bu/A

Selected Soil and Water Conservation BMPs:

Factor	**Current Practice**	**Recommended BMP**	**Environmental Advantages**
Terraces	None	Install terraces	Slow water run-off near stream; decrease soil erosion
Grass waterways	None	Install grass waterways	Grass waterway along stream to slow erosion and water movement
Tillage	Conventional	Minimum-till	Reduce soil erosion, increase water infiltration and reduce soil compaction
Land environmental impact rating	None	Yes (see map)	Identifies for farmer most sensitive environmental area in field

NOTE: The map at right represents a 100-acre field. A soil and water conservation plan should include a rating of the land as to its vulnerability to environmental pollution. This rating can be done on a grid basis (see map) so that those acres most vulnerable to erosion and water pollution can be released (set-aside) first as farmers adopt BMPs. In many situations, the erodible land is the least productive. It can be released from cropping without reducing total production on the individual farm.



Environmental Impact Rating:

Designation	Rating	Grid Numbers
A	Very Severe	4, 9, 10
B	Severe	3, 5, 15
C	Moderate	8, 13, 14
D	Slight	all others

▨ Indicates Potential Release Acres When BMP Management Is Used On Remaining Acres.

Selected Agronomic BMPs:

Factor	**Current Practice**	**Recommended BMP**	**Environmental Advantages**
Variety	Old standard	Best in comparison tests	Better input efficiency
Row-spacing	7-inches	4-inches	Quicker ground cover
Seeding rate	1.5 bu/A	Precision planting at 13 seeds/row ft.	Earlier cover and deeper rooting
Nitrogen (N) management*	20 lb/A at seeding, 80 lb/A in late February	20 lb/A at seeding, 40 lb/A in late February; tissue test in April and apply 0 to 70 lb/A based on test	Increases N efficiency; increases growth and crop residue

*Where animal manure or sewage sludge is available, Virginia Tech recommends that the material be analyzed. Calibrate the rate and adjust fertilizer applications to account for this N, incorporate whenever possible, and tissue test for additional N needs as indicated above.

Tramlines	None	Establish tramlines at seeding (no seed in wheel tracks)	Apply N and other inputs with precision

Note: BMPs already used in current practice are: rotations; soil testing and application of recommended nutrients; band application of phosphorus; planting at recommended date; certified seed; and scouting for threshold levels of weeds, diseases and insects.

(see other side)

Results and Summary:

For this above-average farmer in Virginia, adopting more BMPs as shown above increases his wheat yield potential from 50 bu/A to 80 bu/A. Research and demonstrations conducted by scientists at Virginia Tech have developed this technology. Some of the innovative farmers in the state are adopting these BMPs with great success. At the same time, the farmer would have the flexibility to release acreage most environmentally sensitive (see map on the other side) and maintain current total production potential. It would also provide flexibility to increase total production when demand warrants. The implementation of BMPs also increases nutrient efficiency, water use efficiency, and reduces soil erosion potential. The table below summarizes some of these production, environmental and economic advantages of a BMP Program.

Approximate Effects of BMPs on Yield[1]

Variety	5 to 7 bu/A
Row spacing	5 to 10 bu/A
Seeding rate	3 bu/A
Nitrogen management	8 to 10 bu/A
Tramlines	unknown

[1] Estimated yield increases are not necessarily additive. Interaction effects with other inputs can change the response. The responses shown are averages from various research trials where these inputs were investigated.

Possible Advantages of BMP Program for Soft Red Winter Wheat Production in Virginia

Factor	Current Practice	Recommended BMPs
Expected yield, bu/A	50	80
Acre release potential from 100 acres to maintain same production	—	37
Total production		
with 100 acres, bushels	5,000	—
with 63 acres, bushels	—	5,040
N rate, lb/A	100	130
N efficiency, bu/lb	.50	.62
N removed in the grain, lb/A	60	90
N remaining (most in residue), lb/A	40	34
Total N applied ,lb	10,000 (100 acres)	8,190 (63 acres)
Total N remaining (most in residue),lb	4,000 (100 acres)	2,142 (63 acres)
Production costs, $/A	160	207
Production costs, $/bu	3.20	2.59
Production costs for field		
100 acres, $	16,000	—
63 acres, $	—	13,041
Profit, $/field 100 acres	2,750	—
63 acres	—	5,859

NOTE: BMP adoption allows this farmer to release land with highest degree of sensitivity to environmental factors (designations A, B, and C in this case, see map on other side) and maintain, or improve, total farm production.

Basis for calculations:
Virginia Tech Extension Service ; $3.75 per bushel for the price of soft red winter wheat.

Prepared by agronomists of the Potash & Phosphate Institute (PPI), based on research and extension demonstration information from Virginia Tech.

FERTILIZER PERCEPTION & REALITY

Perception: Fertilizer is a harmful chemical

Reality: Fertilizer is an essential plant food

Fertilizer. The very mention of the word conjures up a host of images — most of them bearing little resemblance to reality. Despite fertilizer's role in advancing the Green Revolution and helping sustain the world's food supply, it is little understood as an essential component of crop production.

Fertilizers could best be compared to vitamins. To support life, our bodies require certain nutrients. Likewise, growing plants must receive adequate levels of nutrition. That's why America's farmers rely on commercial fertilizers— to maintain plant growth, replenish soil nutrients and ensure optimum yields. Science has verified the human body's need for nutrients, just as the need for commercial fertilizer has been documented through decades of soil science, agronomic research and proven results in the field.

Chemically The Same. Mother Nature is *the* reliable supplier of modern fertilizers. Such nutrients are not chemicals invented in a laboratory, but are a part of nature's own chemical process. While the sources vary, the nutrients themselves remain "chemically natural."

In other words, nitrogen from commercial fertilizer is chemically the same as nitrogen from animal manure. One source is no more natural than the other, as they behave identically in nature. Despite all this, however, commercial plant food is frequently confused with "synthetic chemicals" and is often blamed for problems associated with water quality concerns. The following information aims at clearing away the mystery surrounding fertilizer, focuses on several common misperceptions, and responds with straightforward facts about soil and plant nutrients.

PERCEPTION:

Rising nutrient levels in drinking water are causing serious health problems

REALITY:

The only apparent health impact, associated with the presence of nitrate nitrogen, is a condition which rarely occurs today. It is known as methemoglobinemia (or "blue baby"), which can affect infants less than three months of age. The incidence of methemoglobinemia has dwindled to practically zero today, compared to thousands of reported cases prior to the use of commercial nitrogen fertilizer.

There are no other known health effects related to fertilizer. In a recent study to determine the causes of cancer mortality in rural U.S. counties, for example, the University of Pennsylvania found that fertilizer use is unrelated to the disease.

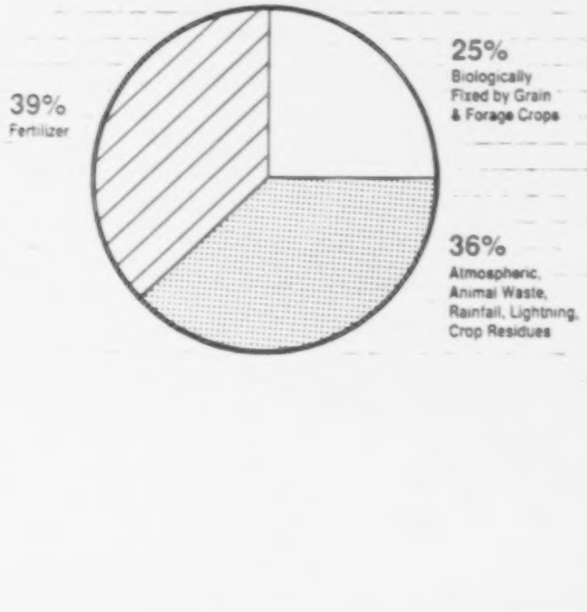
PERCEPTION:

Nutrients in groundwater all come from fertilizer.

REALITY:

Nutrients from all sources in the environment may be found in groundwater, because nature is not a leak-proof system. In fact, statistics prove that in the 1930s and '40s, prior to the use of com-

NITROGEN AVAILABLE FOR FOOD PRODUCTION
(Estimated Percentage by Source)



mercial nitrogen fertilizer, drinking water wells in many parts of the United States exceeded the current drinking water standard for nitrates. Likewise, in parts of the United States where there is a heavy concentration of animal agriculture, levels of nitrogen and phosphorus are more pronounced due to the high quantity of livestock manure. Also, many private wells in rural areas are improperly constructed or are subject to leakage from faulty septic systems, which both add to elevated nutrient levels in drinking water.

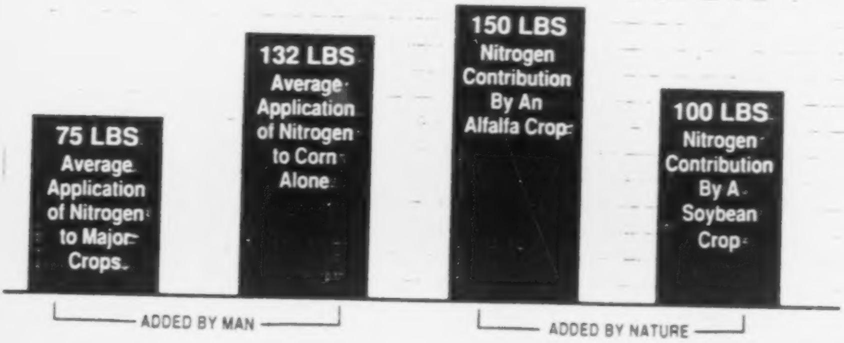
PERCEPTION:

Commercial fertilizer is manufactured and therefore "bad," while nutrients from manure and soybeans are natural and therefore "good." Besides, natural nutrients don't leach into groundwater.

REALITY:

The fact is that a nutrient is a nutrient, regardless of source. Again, the nitrogen produced by a soybean crop or the phosphorus supplied by animal manure is no different chemically than the nutrients contributed by commercial fertilizer. Nutrients are commonly occurring elements in our environment and should never be labeled "synthetic." In addition, the possibility of nutrients leaching from a biologically fixed source such as soybeans is just as likely as from any other source.

NITROGEN SUPPLIED BY COMMERCIAL FERTILIZER VS.NITROGEN SUPPLIED BY CROPS (Per Acre)



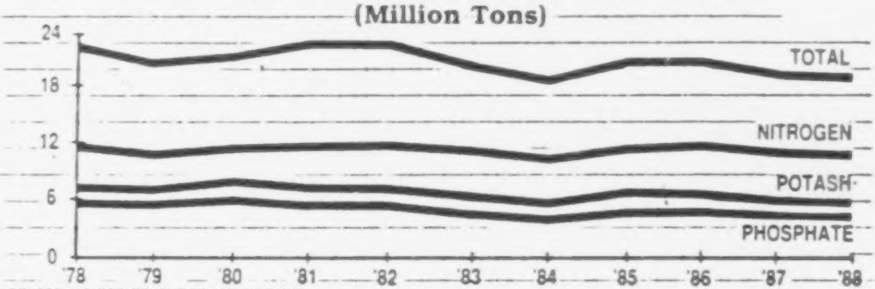
PERCEPTION:

Farmers "dump on" more fertilizer than they need.

REALITY:

A farmer's decision to apply fertilizer is based on a soil test or plant tissue analysis that determines the level of nutrients already available to the growing crop. The amount of fertilizer applied is guided by university recommendations—based on decades of scientific research—which seek optimum return for the minimum amount of applied inputs. Further, since farmer profits are based on carefully planned purchases, farmers gain nothing by applying more fertilizer than absolutely necessary. Rates of fertilizer application are based on science and a proven track record, not a guessing game.

U.S. FERTILIZER NUTRIENT CONSUMPTION
(Million Tons)



SOURCE: U.S. DEPARTMENT OF AGRICULTURE

PERCEPTION:

Fertilizers and pesticides are both chemicals, and all chemicals are harmful.

REALITY:

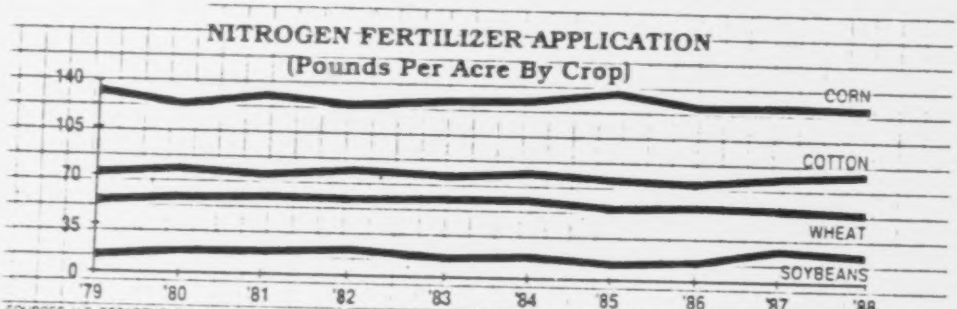
Fertilizers provide food for plants — nutrients required for a growing crop. Pesticides, on the other hand, are designed to ward off pests such as weeds, insects and fungi which can severely hamper crop production. Nutrients are found in nature, while pesticides are generally man-made. While these two farm inputs are distinctly different — and while the approaches to managing them in the environment and on the farm are also quite different — both remain essential components of sustained food production.

PERCEPTION:

Per-acre fertilizer applications are rising sharply.

REALITY:

During the past 10 years, from 1979 to the present, fertilizer application rates per acre have remained relatively unchanged. Average rates of nitrogen on corn stood at 135 pounds per acre in 1979, while in recent years the figure has remained at roughly 132 pounds per acre. This illustrates that farmers have settled on the most efficient application rate needed to achieve optimum yields and return on investment.


NITROGEN FERTILIZER APPLICATION
(Pounds Per Acre By Crop)

SOURCES: U.S. DEPARTMENT OF AGRICULTURE, TENNESSEE VALLEY AUTHORITY

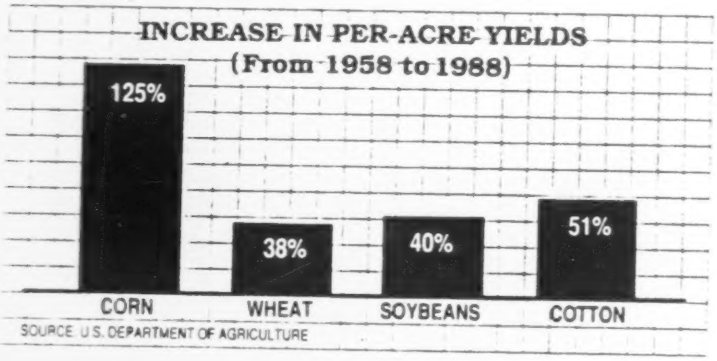
PERCEPTION:

Farmers can do without commercial fertilizer.

REALITY:

The lessons of both the Dust Bowl era and nearly a century of agricultural research at land grant institutions tell us that soil nutrients must be replenished in order to sustain crop production. There are simply no adequate supplies of viable alternative nutrient sources to meet the needs of America's farmers, or the food and fiber demands of both the American people and much of the world.

For example, U.S. crops require 20 million tons of nitrogen to sustain productivity —10 million tons of which are supplied by commercial fertilizer. To replace commercial nitrogen—on corn alone — with nitrogen supplied by animal manure, the U.S. dairy industry would need to raise 83 million more cattle than its current number, and evenly distribute the usable manure on all corn acres. Likewise, if crop rotations with legumes were chosen as an alternate source of nitrogen, food production would be limited to three crops in four years or two crops in three years, in order to allow for the legume rotation. (Currently, 28 percent of crops are already grown under a legume rotation.) The economic, environmental and marketplace consequences of alternatives simply make them impractical for the vast majority of U.S. farmers.



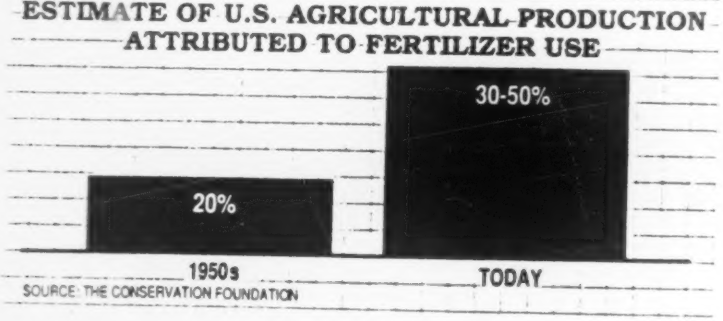
SOURCE: U.S. DEPARTMENT OF AGRICULTURE

PERCEPTION:

Eliminating the use of fertilizer will have no adverse effect on food production.

REALITY:

Without commercially supplied nutrients, food production in the United States would rapidly decline by at least 35 percent from its present level. Such a production shortfall would either boost food costs substantially or force the United States to discontinue exports in order to maintain domestic food availability. Global hunger problems would almost certainly be worsened.



SOURCE: THE CONSERVATION FOUNDATION

Best Management Practices Are Key

The best hope for preservation of a quality agricultural environment and the maintenance of an efficient, reliable production machine is through farmer adoption of best management practices. Field-tested BMPs offer farmers the opportunity to enhance their stewardship of soil and water resources, minimize losses of inputs such as fertilizer, and achieve their yield goals — year after year.

Agronomic best management practices include, but are not limited to, the use of conservation tillage, no-till, ridge planting, strip tillage, crop rotations, irrigation water management, judicious placement and proper timing of fertilizer applications, use of slow-release fertilizer, soil and tissue testing, manure management, and the use of grass waterways and vegetative buffer strips. Each practice is generally recognized as part of a systems approach to reducing or preventing soil erosion and runoff from cropland, as well as nutrient losses to groundwater.

The challenge is to make sure that farmers are informed about the importance and effectiveness of BMPs; that the suggested approaches to safeguarding the environment are realistic, effective and based on proven research; and that farmers recognize their pivotal role in influencing both the quality of their own environment as well as the efficiency of their production system. The key to meeting this challenge is a coordinated effort on the part of agri-industry, farm groups and government policymakers to disseminate the facts (and dispel the misperceptions) to help ensure a truly sustainable American agriculture.

THE FERTILIZER INSTITUTE
501 Second Street, N.E., Washington, D.C. 20002

TESTIMONY OF
DR. JACK D. EARLY
PRESIDENT
NATIONAL AGRICULTURAL CHEMICALS ASSOCIATION
BEFORE THE
UNITED STATES HOUSE OF REPRESENTATIVES
COMMITTEE ON AGRICULTURE
JULY 13, 1989

Mr. Chairman and Members of the Committee, we appreciate this opportunity to discuss with you possible agricultural chemical issues in the 1990 Farm Bill.

As you know, a combination of factors, including agricultural commodity surpluses, rising farm program costs, and environmental concerns, has led to growing interest in reevaluating the current emphasis of U.S. agricultural policy on production maximization. We share this interest and support efforts by you and this Committee to enhance farm viability through economical use of off-farm inputs, including pesticides, and other innovations in agricultural production and incentives.

Our testimony today is directed to a discussion of some of the future challenges of American agriculture and the role of agricultural chemicals technology. We address concerns about pesticides and the wide discussion of alternative production methods and low-input/sustainable agriculture (LISA). We conclude our testimony with the observation that new agrichemical technology is a vital part of these innovative approaches in ensuring farm profitability, resource conservation, and environmental quality. We are hopeful that such a discussion will assist you and the Committee in consideration of changes to the Farm Bill.

Challenges in Agricultural Production

Continuing world population growth and competition of foreign agricultural production will continue to be a major challenge for U.S. farmers. In 1985, the world's population was about 5 billion. By the end of this century, experts estimate that it will reach 6 billion, which reflects an annual growth rate of almost 2 percent. Using such figures, the Congressional Office of Technology Assessment has calculated that world-wide agricultural production must expand by at least 1.89 percent a year to meet the rising demand. According to the National Center for Food and Agricultural Policy, that expansion will mean a 2.3 percent yearly increase in U.S. grain exports, which translates into a total of 53 percent by the century's end.

Certainly, 53 percent is not as dramatic as the aggregate 300 percent growth that farmers here enjoyed during the 1970s. But the figures deserve a closer look. Throughout the 1970s much of the 300 percent growth was reached by putting more land under tillage and planting "fence row to fence row." One result of that supply expansion policy was that commodity prices on the international market flattened out, then fell sharply. By the early 1980s, we got to where we are now: According to the International Monetary Fund, real prices for major food grains in 1986 were 25 percent less than in 1970, after adjusting for inflation.

Unfortunately, falling international prices created an opportunity for countries that were able to under cut our production costs. The success of this strategy can be illustrated with a few statistics provided by USDA's Foreign Agricultural Service. From 1975 to around 1982, U.S. farmers supplied over 40 percent of the world's total wheat exports, mostly to the U.S.S.R., Japan, and Europe. Since then, however, our share has dropped to about 30 percent, while shipments from Europe have tripled and countries such as Argentina have emerged as major exporters.

My point is this: The rules have changed. If our farmers are to increase their exports 53 percent by the end of this century, as the experts tell us they must, or by an even greater amount as new markets are found, then we must provide them with cheaper, better technologies that will allow them to be more competitive and maintain yields. This message was clearly underscored by the Office of Technology Assessment, which calculates that 83 percent of the growth in worldwide demand for food must be met by improvements in yield, not by farming more land. And finally, we must develop better crop input tools with the objective both of increasing agricultural viability, and preserving the environment, energy, and other natural resources.

Despite a current general domestic overabundance of vital commodities which threatens the economic viability of our nation's farms, worldwide demand for U.S. food and fiber will continue to grow over the long-run. To meet this future challenge, the U.S. agricultural community with its finite land base must depend increasingly upon innovative crop protection chemicals and other measures to help protect and increase crop yields at lower cost. Further, utilization of these cost effective practices and tools often make the difference for many farmers between realizing a profit and potential bankruptcy.

Technological Innovation to Meet the Challenge

In the past, agricultural technology has responded to the need for greater yields and lower costs. Mechanical, chemical, and biological innovations have made the U.S. farmer the envy of the world: McCormick's reaper, John Deere's plow, Henry Ford's tractor, broad spectrum insecticides, new seed varieties, pre-emergence herbicides, and efficient plant nutrient systems.

This technology has helped make the U.S. a world leader in food production. In 1900, for example, one farmer produced enough food to feed 8 people. Today, the average farm supplies more than 80 people. Corn yields have increased from an average in 1930 of 40 bushels per acre, to over 115 bushels per acre today. In addition, because we have safer and more effective pesticides, we are able to store and export this surplus to a hungry Third World.

The Role of Agricultural Chemicals

Pesticides have made major contributions toward improving agricultural economics, increasing yields and relieving farmers of much of the past drudgery and dangers in agriculture. Agrichemicals are now an essential part of the farming business. Farmers use these products because their cost is more than offset by higher productivity, safety, better food quality, and increased profits.

The invention of pre-emergence herbicides, for example, has created a technical revolution in the production of corn, soybeans, cotton and many other grain crops throughout the world. Yield increases resulting from weed control with these chemicals can range from 10 to 50 percent or more, depending on weed intensity. The value to the farmer and total dollar improvement to the U.S. farm economy from pre-emergence herbicides alone is in excess of $5 billion per year and is a major contributor to the spectacular increase in farm productivity over the past 20 years. These compounds are a major component of a rich resource of off-farm technology that work together.

Good weed control programs can also prevent contamination of feed grains and hay with noxious weed seeds and foreign material, which results in excessive price discounts (dockage) and allows the spread of weed seeds from area to area when these farm products are sold or transported. Also, off-flavors in milk and other dairy products and deaths of farm animals from ingesting obnoxious or poisonous vegetation can be reduced.

Significant improvement in crop production and safety is gained if crops are free from weeds, diseases and insects. For example, a mechanical cotton picker or cotton stripper cannot operate efficiently in a weedy cotton field. Clogging of equipment by weeds and debris also exposes the operator to extreme danger when it must be unclogged by hand. Controlling allergenic weeds, such as ragweed and poison ivy, and curbing roadside weeds and brush with herbicides to improve traffic visibility, offer significant health and safety benefits to the public as well.

The search for compounds to control insects has lead to similar successes and public benefits. The agrichemical industry is developing powerful new weapons against insects as a result of our increased understanding of insect enzymes and hormone systems. For example, hormones which trigger stages of growth in particular insects can be synthesized and used to disrupt growth patterns. Molting inhibitors, insect behavior modifiers and other chemicals that interfere with larval development are just a few examples.

In recent years, one of NACA's members, a major pesticide producer, introduced a insecticide for use on vegetables which offered the farmer the ability to control pests within hours of application. This development enabled a very efficient, targeted application to be employed. In addition, the insecticide had low dermal toxicity and biodegraded rapidly. Some other insecticides then in use displayed very few of these characteristics. Over time, continuing research and development led to the insecticide's application on other crops including cotton, soybeans, fruit, wheat and tobacco. Breakthroughs such as this have enabled the farmer to effectively control various insects which reduce crop quality, salability and yields.

As significant as our past successes have been, much more needs to be done. We estimate that pests still destroy over 30 percent or $20 billion worth of crops annually in the United States. Without pesticides, the loss might reach two-thirds of our total production, as it does in many developing countries. Some African countries use production methods that have not changed for 300 years. Even after harvest, up to 60 percent of their crop can be lost to rodents and other storage pests. This unfortunate fact contributes greatly to the malnourished and starving millions that handicap the Third World. Yet, now the challenge is also to develop pesticides with lower environmental loading, biodegrade more quickly, are easier to handle and apply, and are safer to workers and the environment.

Concerns About Pesticides and Agricultural Practices

This phenomenal productivity and other benefits achieved through the use of agricultural chemicals, mechanized agriculture and other technological innovations have also raised some public apprehension. Increasing attention has been given to the need for resource conservation and what some observers see as serious environmental, economic and social problems associated with agricultural technology and related practices. Pesticides are a visible target; although also prominent are agricultural practices and other off-farm inputs that contribute to ground and surface water contamination, land erosion, drainage of wetlands, depletion of aquifers, and other possible environmental and economic dislocations.

Not surprisingly, farmers and others are questioning the role of current technology and practices in agriculture. We believe this public debate is healthy and are convinced that a fair and complete analysis based on science, not emotion, will justify a continuing, if not stronger role for certain chemical pest control inputs. Parenthetically, in this regard, only a small percentage of total farm expenditures now go to pesticides. In 1983, for example, U.S. farmers spent $18 billion for feed, $10 billion for machinery and repairs, $7 billion for fertilizer, and $4 billion for pesticides. This figure for pest control constituted less than 5 percent of all inputs, including labor, taxes, and land costs, on a per-farm basis. With demonstrated increases in productivity and in crop quality that such a relatively small investment makes, pesticides are already "low-input" in sustaining agricultural production.

Evolution of New Pest Control Technologies

Our industry is working toward new products that have the greatest potential for efficient agricultural production, with the least negative impact on the environment and public health. These technologies have already and will in the future help reduce soil erosion, ground and surface water contamination, and threats to wildlife. Examples of such beneficial technologies include:

- Biotechnology -- Biotechnology has great potential for advances in agricultural pest control. A key focus is understanding interactions between hosts and pests so as to interfere with disease development and pest replication. The application of genetic engineering, to modify plants to resist insects and diseases, has already been demonstrated in the laboratory and has significant potential as a pest control strategy. Imagine a plant that could protect itself from insect pests by producing its own biological and highly specific insecticide -- a protein that kills only certain pests and is harmless to people, animals, the environment and beneficial wildlife. A critical factor in the success of this technology will be its ability to develop products that can be used in normal application, be effective and priced competitively with traditional agricultural chemicals.

- Delivery Systems -- Pesticide application and delivery systems are rapidly being improved.

Delivery of products in non-living engineered cells should be available in two to three years. Living microbial delivery systems should be commercial by the late 1990s. Cloning of genes which code toxins into plants may be the ultimate delivery system, although this technology is several years from commercial reality.

Mechanical application technology continues to advance. The development of rotary atomizers has reduced pesticide drift and amounts of "inert" carriers required for application. Vegetable oils, some from the crops on which the pesticides are applied, are increasingly being used as carriers. Finally, closed-systems (with virtually no waste or operator handling of concentrates), photoelectric triggers (where applications are targeted directly on foliage), wick applications (eliminating spraying and reducing environmental load), and computer-controlled flow monitors are all in commercial use or development.

o Biological Controls -- Production of botanical and new biological pest control measures should be available in the near future. One example is using modified beneficial microbes in soil to combat pathogenic varieties that cause plant diseases.

- Low-Volume Products -- Concern over higher rate use of agrichemicals in crop production has resulted in the chemical industry's focus on discovery and development of new products which are effective at much lower application rates (ounces per acre instead of pounds), are less toxic, and which biodegrade quickly. Several major agrichemical producers are marketing herbicides that can be used at rates of less than one ounce per acre.

- Education -- The agrichemical industry is increasing its focus on technology transfer to the farmer. Many of the production practice recommendations that the U.S. Department of Agriculture traditionally developed and communicated to farmers are also being offered to the farmer by agrichemical producers. One of NACA's members is using a computer network, tied to central data bank, to assist its customers on groundwater protection. This trend is likely to continue and expand as firms compete on service as well as product.

- Seeds and Crops -- Pesticide and pest resistent qualities are beginning to be imparted into certain crops through protoplast fusion, micro-injection of genetic information into somatic cells, and mediated gene transfers. Such technology will allow pesticide applications at environmentally favorable times, and the reduction or elimination of certain pesticide applications altogether. Also, plant improvements in research by NACA's members include plants that can withstand extreme heat and cold without suffering damage, and plants that can tolerate too much or too little water, or salt water. Changes in the location and conditions of crop cultivation may assist in resource conservation and environmental protection.

- Packaging and Formulation -- To reduce applicator risks and possible environmental impacts in pesticide handling and disposal,

> the industry is developing innovative ways to package pesticides. Water soluble containers and recycling through mini-bulk containers virtually eliminate contaminated container disposal. Efforts to standardize container shape, size and openings are facilitating closed-system operations that allow mixing of concentrates at the point of application, thereby reducing applicator exposure and waste. New pesticide formulations to improve worker safety and environmental protection include dry flowables, slow-release microprills, granulars, and dye-based formulations to improve application coverage.

Some of this new technology is basic research designed to learn how crops really grow and why herbicides and other pesticides work. Knowledge of fundamental biochemical processes at the molecular level has allowed the industry to design chemicals which have a high probability of interfering with a pest's vital functions and reducing application rates.

There has been a trend of discovery and commercialization of compounds of high unit activity. This development has been in large measure due to an increased understanding of biochemical processes, coupled with new computer programs. We are approaching the "tailor making" stage in some areas of crop protection chemical research. We will have compounds which are intricately designed to disrupt plant and insect processes at sites within these systems which will be unique to them. The resulting compounds should be less dangerous to mammals and more effective against the target insect, weed or plant disease. We've seen the emergence of highly active herbicides and insecticides which fit this profile.

We are also continuing to see high levels of investment in research and development as major suppliers expand their efforts in development of new products. In 1987, the U.S. agrichemical industry invested over $680 million, or about ten percent of revenues, on product research and development. Several companies, including BASF, DuPont, Monsanto, and Ciba Giegy, have recently built new laboratories for research and development in the U.S. These and other firms are also entering into joint ventures or contractual arrangements for outside research, including that done in cooperation with public universities. This research base is the key to future food supplies and environmental protection. Unfortunately, this level of research expenditure is becoming increasingly more difficult to justify.

The Challenge of Agrichemical Research and Development

Success in developing new pest control products is becoming more difficult. In the early 1950s, companies screened 2,000 compounds for each one introduced commercially. Today, the number is over 15,000. Stating it differently: hundreds of thousand of chemicals were tested for pesticide potential between 1972 and 1981, with only 80 new chemicals registered as pesticides in that period. It is a major challenge to find chemicals and other means that possess the unique ability to control a target pest without adversely affecting humans or the environment.

The magnitude of research costs can best be illustrated by the costs for a single new product. It generally costs $20 million to $40 million in research for a new pesticide. Some estimates place research and development costs as high as $70 million. By contrast, development of a pesticide in the late 1950s cost well under $1 million.

Likewise, the time to bring a new product to market has also increased substantially. In the period 1950-60 it took about three years to develop a new product (from first synthesis to marketing the approved product). This period increased to five years in the period 1960-70, seven years in the period 1965-75, and about ten years today. A recent study by NACA covering a 19-

year time frame determined that five to seven years of the process is spent in registering a pesticide, i.e., from initiation of the first major health test until first registration.

A major contributor to these increases in cost and time is the research and testing required by Federal law. No pesticide may be marketed in the United States until the manufacturer satisfies EPA that the product presents no unreasonable adverse effects.

Our tests to determine safety and efficacy are much more sophisticated, time-consuming and exacting than they were even a decade ago. Today, Federal testing requirements under the pesticide laws may encompass hundreds, and sometimes thousands, of individual studies on health and safety effects, chemical residue and environmental fate. Most of these tests are not optional. They are explicitly required by Federal regulations, described in detail, with specific test protocols and laboratory practices. For example, such regulations require tests to determine acute toxic effects through oral, dermal and inhalation exposure, chronic toxic effects such as cancer, birth defects and reproductive harm, and the efficacy of the product. Detailed studies must be made of the possibility of residues remaining on the crop or in the animal, of effects on soil microfauna and microflora, and of possible dangers, either directly or indirectly, to fish, birds and other wildlife.

Many of these tests are quite time-consuming. For example, the minimum acceptable duration for certain chronic feeding and oncogenicity studies required by the EPA is 24 months. When tests to determine acceptable feeding doses, and the time required for data interpretation and report preparation are included, the overall time required for a single test may easily exceed three years.

The data from such testing is ultimately submitted to EPA for review during the final phase of the regulatory review process. It is not surprising that even this stage of the process may take one and one-half to two years. The volume and complexity of the scientific data submitted to the government in support of registrations is staggering. It is not unusual for a pesticide application to consist of 50 thousand pages. Over 200 scientists, technicians and administrators at EPA are involved in the review process. These individuals must keep up-to-date in the latest scientific developments in interpreting and evaluating test data. Moreover, not only do these individuals make certain our data satisfies the agency's rigorous scientific criteria, but in addition, they must also be able to satisfy the demands created by a growing public awareness and concern about chemicals.

Integration of Agrichemicals and LISA

Pesticides provide proven benefits to the public through low cost production of an abundant, healthful, and varied supply of food. Yet, simple reliance on pesticides and related technologies is not a substitute for good stewardship. Long-term economic viability and environmental protection in agriculture depends ultimately on both expanded use of better technology, and improved education, crop rotation, economic farm management, and integrated pest control. This combination will help preserve the environment, provide low-cost food and maintain the agricultural economy. Agriculture can only sustain its vitality if real production costs are kept down and are more than matched by an adequate return from crop production.

In this important respect, the agrichemical industry is fully supportive of LISA. Obviously, the concept means many things to different people. But to us, LISA is a management system which uses inputs (both those available as natural resources on the farm and those purchased) in the most efficient manner possible to obtain productivity and profitability from farming, while minimizing adverse effects on the environment and public health.

It is important to note what LISA is not. Sustainable agriculture is not synonymous with what some define as low-input farming. In fact, the phrase "low-input" is a misnomer, since when some inputs are decreased, such as chemicals and fertilizers, others inevitably increase, such as labor and machinery, while usually reducing output and profitability. True sustainable agriculture recognizes these trade-offs among inputs, and it is fair to say that sustainable agriculture is extremely management-intensive. Low-input means to us an increased sensitivity to the marginal returns and other costs and benefits of inputs and management techniques necessary to successful farming. It does not mean mindless elimination of off-farm purchases.

The emphasis of sustainable agriculture in the Farm Bill or other laws should not be on a "low-input" goal of eliminating the use of synthetic fertilizers and pesticides. We can not eliminate or significantly reduce off-farm inputs and still achieve the same level, quality and variety of food production our nation enjoys today. Wide selection and use of different pesticides is essential to reduce development of pesticide resistance, to keep prices as low as possible through competition, and to maintain crop yields and profits.

For example, a study from the Iowa State Center for Agriculture and Rural Development estimates that a switch to a low-input system would result in a 75 percent decrease in our supplies of corn and wheat. Further, a report from the Council for Agriculture Science and Technology, comparing organic and conventional farming, estimates that current grain-and-livestock farmers who switch to low-input systems would suffer a decrease in crop yields of up to a 25 percent. The report notes that if cash grain farmers switch to low-input methods, the decrease would be much greater. Even more troubling from the environmental perspective, the report concludes that such a change in agricultural practices would result in more need for land (with pressure on wetlands and wildlife habitat) and more soil erosion.

With LISA's focus on environmental and natural resource protection, moreover, agrichemicals are an even more essential ingredient. Herbicides to control weeds on highly productive soil reduce erosion, because less cultivation is required. Stubble mulch farming, no-till, ridge till, and other practices are well recognized for their beneficial effects. Some of these benefits are reduced soil erosion by both water and wind; increased rates of water infiltration into the soil, with less runoff; reduced loss of moisture through evaporation from the soil surface; reduced fuel, time, and labor requirements.

Also, a new type of pesticide -- a bacteriostat that when added to ammonia-based or urea-based fertilizers retards their microbiological conversion to leachable nitrate -- is lowering the chance of nitrate reaching groundwater. Thus, yields are enhanced by helping assure that applied fertilizer remains in the zone of root growth, while public health is protected by lessening the likelihood of nitrate loss.

Finally, along with USGS, EPA, USDA, and various state agencies, we are conducting extensive research on the conditions for products leaching into groundwater. This is an effort to collect physical, chemical, and biological data and other information that may indicate the potential for products to leach, as well as developing models for prediction and new pesticide products to avoid groundwater infiltration.

On the issue of groundwater protection, we would like to call your attention to an educational program intended to spread the use of best management practices and further public knowledge of groundwater protection principles. This program is called "ACRE," or the Alliance for a Clean Rural Environment. NACA is pleased to support the ACRE program, which is funded by about 20 manufacturers of agricultural chemicals. ACRE recognizes that usable information in the right hands is an important safeguard to groundwater quality and will help ensure that vital groundwater supplies beneath our farms and rural communities stay safe to drink.

The point is this: Obviously, there is no magical formula or absolute way for practicing sustainable agricultural. It depends on the crop, geographical region, available technologies, market opportunities, on-farm resources, weather, soils and many other variables. Pesticides may or may not have a role.

The successful farmer must manage these variables and all farm and off-farm inputs so as to practice sustainable agriculture for his or her unique situation. In very simple terms, it really comes down to management. Managing all the inputs so as to obtain maximum economic yields should be the goal. Each farmer must determine which inputs work best. There is no standard "cookbook" which describes sustainable agriculture for all farms, crops, soils, weather conditions, and market opportunities. In the long run, farmers who become low cost producers in the world market will manage their total inputs to improve their profitability. Computer technology now on many farms and in the hands of agrichemical salesmen and dealers help farmers manage these decisions in an effective and timely manner.

Conclusion

In recent years, the public and agriculture are beginning to look at productivity with a broader perspective. Lower operating costs, preservation of natural resources, and sustained yield have become as important or more important as maximum yield. New technology and the use of pesticides are powerful tools, but if the goal of agricultural production is poorly defined, inefficiency and the misuse of resources may result. Perceived shortcomings in agricultural policy may have more to do with faulty or inadequately designed goals, than with the technology we have developed and applied. LISA concepts may provide the proper framework, so long as they remain sufficiently flexible to accommodate this technology. As we move forward on alternative agricultural production methods in your consideration of changes to the Farm Bill, we must continue to encourage this new technology and not create artificial barriers, disincentives, and arbitrary limitations on use.

National Grain and Feed Association

Statement on Review of Issues Relating to Formulation of the 1990 Farm Bill

Before the
House Committee on Agriculture
July 13, 1989

Mr. Chairman and members of the Committee, my name is Kendell W. Keith. I am Executive Vice President of the National Grain and Feed Association.

The NGFA is voluntary association of more than 1,300 companies involved in the grain and feed complex representing some 5,000 facilities throughout the United States that handle and market more than two-thirds of the grain produced by American farmers. Included in our membership are grain and feed firms ranging in size from the smallest country elevator to the largest grain and feed complex. Our membership base includes country and terminal elevators, merchandisers, processors and exporters covering a wide spectrum of the industry. The NGFA membership also includes 42 state and regional grain and feed associations with membership totaling some 10,000 grain and feed companies nationwide.

The NGFA is pleased to present our viewpoints on U.S. agricultural policy to the committee in its consideration of the 1990 farm bill.

Mr. Chairman, the grain and feed industry takes U.S. agricultural policy, and the programs resulting from determinations made by Congress and the administration, very seriously. After all, it is the companies in our industry, as well as those who have testified before me, that ultimately must operate in the business environment created by that policy. Thus, while our industry does not directly benefit from farm programs, our businesses are affected directly in a very significant way by the structure of farm programs.

To formulate our industry's views on the crucial elements of the 1990 farm bill, our Association has established a task force comprised of members of our International Trade/Agricultural Policy Committee. Today, my testimony will address several of the areas which the task force has addressed thus far. We pledge to convey additional viewpoints to this committee as they are developed more fully in the near future.

From our perspective, the principles set forth in the 1985 farm bill should serve as the guidepost for future farm policy considerations. In 1985, Congress clearly shifted policy toward greater market orientation. The U.S. production and distribution chain responded to that policy shift and demand for U.S. agricultural commodities increased. Since 1986, exports of grains and oilseeds have increased an estimated 32 percent from 102 million metric tons in 1986 to an estimated 135 million metric tons in 1989. This focus on market orientation has benefitted all segments of agriculture from exporters to producers and the businesses that operate in rural communities.

While the Food Security Act of 1985 was a substantial policy improvement for which Congress is to be commended, it contains some flaws that warrant changes. Indeed, some shortcomings have become evident in our industry's experience in the last few years. Two of the most serious are: 1) the reliance upon acreage retirement as a primary method of controlling federal program outlays, which has led to artificial shortages of some commodities; and 2) disincentives to a producer to base cropping decisions on market prices or to make prudent land management decisions.

We believe remedies to the set-aside and the production flexibility issues should be paramount on Congress' list of objectives for the 1990 bill.

Loan Rates

Prior to enactment of the 1985 farm act, the United States operated a non-recourse loan program that set minimum prices at high levels that were downwardly inflexible.

Through excessive loan rates, U.S. agricultural policy actually stimulated our foreign competition. Under U.S. farm policy of the early 1980s, many foreign countries became very comfortable in expanding production by leaps and bounds. As long as world production remained at fairly reasonable levels, U.S. loan rates provided insurance that prices would not decline beyond certain levels. And even as prices softened, our foreign competitors were comforted by the thought that the United States would unilaterally act to control supply and raise prices in following years through acreage set asides.

The National Grain and Feed Association and others called on Congress to implement a more market-oriented loan program as a cornerstone for returning prosperity to U.S. agriculture and rural America. After much debate on the issue, Congress passed the new farm bill that mandated lower loan levels and provided the secretary of agriculture with discretion to reduce loan rates even further if necessary to ensure they remained consistently below market-clearing levels.

Consequently, world grain exporting nations took notice and began to confront new risk when considering bringing additional land into production. From 1981 to 1987, total world harvested acreage for grains and oilseeds declined from 860 million to 820 million hectares. It is impossible to calculate how much of this decline can be attributed to U.S. policy changes; but it is reasonable to believe that such policy changes had a tremendous impact on global production decisions.

Because of its demonstrated success, the National Grain and Feed Association strongly supports the continuation of the current U.S. policy of a market-oriented loan program. We think it would be extremely short-sighted to permit any fine tuning with loan rates for purposes of budget savings. With the value of the dollar fluctuating dramatically, Congress and the administration can ill-afford to attempt to adjust loan rates at a narrow margin to market prices without running a great risk of placing the Commodity Credit Corporation in the position of again being the residual purchaser and holder of grain. U.S. agricultural competitiveness is the single most important factor for ensuring the long-term viability of rural America and should be maintained by holding loan rates at levels that will not interfere with a competitive world price discovery process. Put simply, the U.S. government should not be the market for U.S. grains and oilseeds.

Acreage Reduction Programs

Almost anyone familiar with agriculture and agricultural policy readily acknowledges that the economic well being of our industry is heavily dependent on exports and international trade. When drafting the 1985 act, Congress and the administration made U.S. agriculture an aggressive player in the international marketplace for wheat and feed grains. Actually, this policy choice in 1985 was a relatively easy one for Congress to make. Government-owned grain stocks provided plenty of ammunition to load Uncle Sam's export cannons, thus making U.S. farm products instantly competitive. Surplus CCC-owned grain stocks provided the wherewithall to use such tools as generic commodity certificates and the Export Enhancement Program. The grain surpluses allowed USDA to continue large acreage reduction programs mainly to control federal budgetary exposure.

By being the heir of massive stockpiles of grain, USDA could, and did, administer acreage reduction programs with little regard for ensuring that adequate supplies would be available to meet an increasing demand. However, U.S. policymakers and the administration can no longer ignore the supply needs of the market when shaping farm programs.

In just the last marketing year, wheat carryover declined from 1.261 billion bushels to 694 million bushels. For corn, carryover declined by more than half, from 4.259 billion bushels in 1987-88 to 1.83 billion for 1988-89. Carryout stocks of wheat, rice and corn in all of the major exporting nations also declined precipitously. We are extremely short of soybean supplies and continue to import basic commodities like oats. Carryout levels of wheat, corn and rice for the major exporters, have declined from 254 million metric tons in 1986-87 to 118.8 million metric tons in 1988-89.

Consequently, we believe it is time for Congress and the administration to recognize and act to avert the pitfalls of acreage reduction programs. It is time to recognize that acreage reduction decisions -- by affecting U.S. grain supplies -- are a major determinant in whether U.S. agriculture is market oriented. Arguments for less reliance on annual acreage reduction programs are numerous:

1) **Acreage reduction programs reduce the efficiency of the agricultural sector**. They idle resources that have few alternative economic uses. Fixed costs of resources and infrastructure must be covered by a smaller volume of output, adding to the costs of producing each bushel. According to the Agricultural Policy Working Group, a 20 percent set aside program can add as much as 33 cents per bushel to the production costs of a typical Iowa corn farmer. Production controls affect members of the National Grain and Feed Association and the agricultural infrastructure, as well, by keeping productive capacity in these segments of the marketing chain from being utilized fully. Further, a finely tuned U.S. agricultural marketing and transportation infrastructure -- one of this nation's true competitive advantages -- cannot serve as such if it is put on idle. The end result is a higher unit cost for producing and

exporting U.S. agricultural products. For these reasons, acreage reduction programs work heavily against us as we strive to be the most efficient, competitive nation in agricultural commodity production and marketing.

2) **Acreage reduction programs encourage foreign production.** When the United States limits output, foreign competitors are encouraged to expand production and displace U.S. sales. This perhaps was demonstrated most graphically in the 1983 payment-in-kind program, where the 80 million acres of idled U.S. farmland were replaced literally acre-for-acre by foreign planting.

3) **Acreage reduction programs limit market growth and promote development of substitute products.** Limiting production can restrict the availability of a commodity and cause users to look elsewhere for cheaper alternative products.

4) **Acreage reduction programs can lead to international trade confrontations.** U.S. policymakers may discover this quickly as the reduction of surplus stocks may force Congress and the administration to pay export subsidies in cash rather than commodities if these programs are continued. Consequently, U.S. trade negotiators, as well as Congress, may find it more difficult to justify export subsidies that are paid in hard currency.

It can be argued acreage reduction programs have been used recently more as a budget-control measure than as a supply-management tool. Realizing the detrimental effects of acreage reduction programs, the NGFA believes that use of acreage reduction programs for budget purposes is poor public policy. If budgets continue to be a problem, perhaps Congress should begin to focus more on limiting ASCS payments than raising production costs for agriculture through high, non-market-oriented set asides.

In addition, the National Grain and Feed Association recommends that Congress consider at least a short-term suspension on entering land into the long-term Conservation Reserve Program (CRP). The 1985 act mandates minimum levels for acreage enrollment into the CRP. The established minimum level is 35 million acres for 1989 and 40 million acres for 1990, respectively. Considering the many uncertainties concerning supplies of stocks (especially wheat), Congress should consider slowing enrollment into the CRP.

Our members believe that productive farmland should not be enticed into enrollment into a long-term acreage idling program by relaxing soil loss criteria or increasing rental payments to exorbitant levels to achieve mandated minimum levels for the CRP.

Producer Planting Flexibility

From our standpoint, planting flexibility is a central element of true market-orientation: allowing farmers to plant the crop demanded by the marketplace rather than in response to the dictates of federal farm programs. The dramatic shift in U.S. acreage from oilseeds to corn since passage of the 1985 farm act, even in the face of increasing demand for oil and soybean products, demonstrates that inflexible acreage base systems do not reflect the true condition of the marketplace. U.S. acreage planted to soybeans has declined from 63.1 million acres in 1985 to an estimated 61.7 million acres for 1989. And this figure includes an increase of 2.8 million acres due, in part, to the provision in the 1988 Disaster Assistance Act permitting producers to shift crops without loss of acreage base.

Clearly, producer decisions to plant corn instead of an alternative crop were driven by considerations other than market demand -- a major policy question that must be addressed seriously by the committee in the 1990 bill. Since 1979, the United States has abdicated approximately 12.5 million acres of soybean production. These acres have not been lost on a global scale, however. On almost an acre-for-acre basis, this production has shifted from the United States to South American farms, with the ultimate impact being a loss of U.S. competitiveness and a decline in America's ability to meet market demand. If this trend is not halted, the United States could soon find itself in the position of importing oilseeds to meet domestic crushing demand.

In addition to the loss of market competitiveness, the current lack of flexibility in farm programs has affected very negatively the ability of a producer to exercise sound soil management practices. This could portend disturbing implications for the future. In the 1985 farm act, Congress devoted considerable resources to soil conservation and environmental issues. As mentioned previously, the CRP is but one of these efforts. Environmental issues will continue to be a crucial agricultural concern. But the rigid crop base structures and payments run counter to good soil management practices because they discourage, for even one crop cycle, any rotation to other crops.

Our country elevator members report that farmers complain about their lack of planting freedom under current legislation. Farmers would like to plant other crops (to fix nitrogen in the soil, etc.) but do not for fear of losing payments and crop acreage base protection. These current rigid programs make little sense economically or environmentally.

Several options for addressing the flexiblity issue now are being reviewed. Whether Congress adopts the approach of realigning target prices, implementing a triple-base concept, or returning to a normal crop acres approach (or a combination thereof), the issue is one that must not be postponed nor ignored. Too much of the future of U.S. agriculture depends upon the ability of producers to make planting decisions that can meet market demand.

Conclusion

Mr. Chairman and members of the committee, we believe keeping farm policy on auto pilot and making limited changes will hinder American farmers' future competitiveness. Moreover, U.S. agriculture's ability to experience any additional growth would be delayed, if not completely forfeited. Making the wrong policy choices could be disastrous for American farmers, as well as for the grain and feed industry and other components of America's agricultural infrastructure. We have seen some expansion in our markets since 1985 and the last thing needed at this stage is to retard or halt the recovery process.

STATEMENT

Submitted to

THE HOUSE COMMITTEE ON AGRICULTURE

by

AMERICAN PEANUT PRODUCT MANUFACTURERS, INC.

at the

HEARING
TO REVIEW ISSUES RELATING TO
THE FORMULATION OF THE 1990 FARM BILL

July 13, 1989

Mr. Chairman and Members of The Committee,

The American Peanut Product Manufacturers, Inc., is an organization of food manufacturing companies that, collectively, are the biggest users of peanuts in the United States. Our companies make peanut candies, peanut butter, salted nut products, and other peanut-based products.

We have a vital interest in the peanut provisions of the 1990 farm bill, and are pleased to have this opportunity to present our views on the issues relating to the formulation of the 1990 farm bill.

The 1990 farm bill is extremely important legislation that will provide the blueprint for the agricultural price support programs for the next five years, including the peanut program. APPMI believes that a major issue that you will have to face in formulating the 1990 farm bill is the need to make modifications in the current peanut program.

We want to work with Congress, as well as the growers and other interested parties, in developing a peanut program for the 1990 farm bill. We seek changes in the peanut program to make the program more responsive to market forces and more equitable to consumers, and to eliminate regulatory complexity.

Areas that Congress should focus on in improving the peanut program as part of the 1990 farm bill include:

-- Revising the formula for determining the quota to make it more responsive to market needs.

-- Eliminating disruptive effects of the price support loan on the marketing of peanuts.

-- Improvement of the quality of quota peanuts provided by producers.

-- Revision of burdensome regulations that can cause inadvertent technical violations of program requirements.

-- Adjusting the price support level to better harmonize it with support levels for other commodities covered by the farm bill.

We would like to submit for the record at this point a discussion of the issues, taken from the paper APPMI has already submitted to peanut grower groups. This discussion spells out, from APPMI's perspective, issues to be addressed in the 1990 farm bill.

Again, we would like this opportunity to assure you that APPMI will be making every effort to resolve the issues that divide peanut growers and peanut users.

(Attachment follows:)

THE CURRENT ISSUES

1. The National Poundage Quota Determined Under Current Legislation Is Unresponsive to Market Needs.

Current Quota System Stifles Growth: Domestic consumption of peanuts is increasing slightly, but it should be growing at a faster pace.

The current quota legislation is designed to ensure that demand always exceeds commercial supply (that is, the supply of peanuts sold directly to commercial buyers). Such quota controls stifle the growth of the peanut industry because the threat of commercial shortfalls due to quota limitations has forced peanut prices well above price support levels.

Failure to Meet Market Needs: The rigid distribution of the quota under current law artificially creates shortages of the varieties of peanuts for which there is the most demand in the domestic market, while encouraging overproduction of other varieties of peanuts. The shortages, in turn, place upward pressure on peanut prices. For example, increases are occurring in the demand for Virginia, Runner, and Valencia peanuts without concomitant increases in the quota to foster a proportionate increase in the production of these varieties. On the other hand, the use of Spanish peanuts in the edible peanut market is declining. This is shown by the fact that at the end of 1988 it was estimated that some 35,000 tons of Spanish quota peanuts would be crushed for oil use. Moreover, the Secretary of Agriculture has also announced a significant reduction in the support price for Spanish peanuts for 1989 because of the quantity now being crushed into oil and meal. However, under current law, there is no way to reallocate quota from less popular varieties to other varieties where the need is greater.

Carryover: Another factor tending to make the current system for determining the quota insufficient is its failure to provide for consideration of an adequate carryover of peanut stocks from one marketing year to the next. To prevent extreme fluctuations in the supply of edible peanuts, it would be desirable to tailor the quota determination process so that some supply of all varieties would be available to cushion the transition to the new crop.

Quota Determination: The current system for determining quotas includes estimated quantities for "crushing residuals" and "shrinkage." The quantities attributable to these factors, derived from inspection data, are added to the basic edible quota. While this approach is helpful, it does not go far enough. The quota is intended to supply the edible market. Realistically, this market uses "sound mature kernels" (SMK) and "sound splits" (SS). The quota should be calculated in terms of SMKs and SSs, rather than farmer stock tonnage.

Transfer of Quota: The effective, economical operation of peanut poundage quotas is hampered by the restrictions on the sale and transfer of quota. At the present time, sales and transfers may be made only within the county in which the poundage quota was originally allocated to a farm. This restriction prevents peanuts from being grown on land that can most effectively and efficiently grow peanuts. The limitation also has the effect of further limiting within-quota production. A portion of the quotas is not planted each year because the quota poundage involved cannot find a planting home within the county to which it was originally allocated. Sales and transfers of quotas beyond county lines would allow a more effective use to be made of the resources devoted to raising peanuts.

2. The Loan Price Support Program Has Disruptive Effects on the Marketing of Peanuts

In order to make the level of price support made available by Commodity Credit Corporation effective from the viewpoint of the producer, section 359 of the Agricultural Adjustment Act of 1938, as amended by the 1985 farm bill, and section 407 of the Agricultural Act of 1949 place restrictions on the prices and terms at which various price-supported commodities may be sold domestically once they have entered the CCC loan program. In the case of peanuts delivered to area producer marketing associations for CCC price support, the nuts are effectively removed from the domestic edible market, disrupting the free flow of peanuts.

In some years, a significant portion of the marketable edible peanuts can be effectively held off the market through the joint operation of the area grower associations and CCC price support operations. This further inflates the price of peanuts and exacerbates the volatility of the market.

3. The National Level of Price Support is Too High and Acts as a Damper on the Demand for Edible Peanuts.

Level of Support: Current quota price support levels are set on the base line of the 1986 support level of $607.47 per ton, established by the 1985 farm bill, which was a substantial increase over the 1985 level (the last year covered by the 1981 farm bill). The 1986 support level was required to be the 1985 level adjusted to reflect increases in prices paid by growers during the entire 1981 through 1985 period. The result was a hefty $48 per ton increase in 1986 over the 1985 support level. Further, the arbitrary increase in an already high support level was implemented while support and target prices in other programs were being decreased.

Moreover, the level of support under the 1985 farm bill can only be ratcheted up--never down. As a result, the reductions in recent years in the cost of producing peanuts cannot be factored into the quota support level.

High prices tend to diminish consumer demand for edible peanuts and peanut products. This can readily be shown by reference to the industry's experience in 1980 when a short crop drove prices up and edible peanut consumption down.

The combination of high support prices and short quotas has driven end of season prices as high as $900 per ton. In the short run, producers appear to gain from such a combination, but the result is illusory because, in the long run, demand for their product is lessened. Potential demand for peanuts and peanut products has never been realized.

Harmonization: Peanut support levels are out of line with the level of support for other commodities. For example, it was found that in the period 1975 to 1983, on a regional basis, a "bushel" of peanuts was the economic equivalent of a bushel of soybeans priced at $21.00. The current price support value of peanuts is more than double the cost of production and encourages leasing of quota at such high rates as 8 or 9 cents per pound. While the grower should have the opportunity to make a profit, the extraordinary price support subsidy paid on peanuts enables the grower to make a profit even after incurring the high costs of leasing on top of his costs of production.

4. Peanut Quality.

The quality of quota peanuts provided to processors needs improvement. Farmer stock peanuts supplied to processors may contain quantities of lower grade peanuts, or peanuts contaminated with A. Flavus mold or aflatoxin, which requires that those peanuts be eliminated from the edible market.

The proper discounts and premiums for peanuts should be reflected in the peanut price support loan program. The current discount and premium schedules do not adequately encourage the growers to deliver the highest possible quality peanuts they are capable of delivering.

5. Steps Should be Taken to Eliminate Unnecessary Regulation of the Export Market for Peanuts.

At the present time, the statute and the regulations permit processors of peanut products to export additional peanuts in the form of finished products such as salted peanuts, candy, and peanut butter. However, both the statute and the regulations unnecessarily encumber the process. As a result, processors face the risk of being assessed penalties of 140 percent of the price support level of peanuts for inadvertent technical violations of overly-complicated program requirements, with no opportunity to rectify the situation.

Transfer Limitations: Under the current peanut program, a processor may manufacture peanut products in the United States using additional peanuts and export the finished product. However, administrative red tape requires that the peanuts intended for such use be identified by the processor prior to their manufacture into finished products. Processors are willing to comply with the intent of these export procedures, but sometimes find themselves having committed to export the product prior to its manufacture only to discover later that the export market has diminished or disappeared completely. Despite such changes in the market condition, the processor is still required to export the product even though there may be no current market, or accept the penalty for failure to do so. As a result, processors of peanut products are reluctant to undertake this type of export activity.

These unnecessary administrative restrictions and limitations should be removed and replaced with much less burdensome and more direct methods of accomplishing the same goal. For example, processors who have made a commitment to export products should not be prohibited from exporting the equivalent additional peanuts in raw shelled kernel form. Further, processors should be permitted to export peanut products containing quota peanuts and supplement their domestic stock with an equivalent amount of additional peanuts acquired after such products are exported.

Substitution: Another market-chilling requirement appears in section 359(p)(2)(B) of the Agricultural Adjustment Act of 1938, as added by the 1985 farm bill, which permits only limited substitution in export channels of sound split (SS) kernels for sound mature kernels (SMKs). In reality, the export requirements for additional peanuts could be easily satisfied and properly policed if the statute and regulations merely required that a quantity of additional peanuts on an edible nutmeat basis be acquired equal to the quantity of meats exported as product, sound splits, whole nuts, or in the shell also tallied on an edible nutmeat basis.

Time Limitation: Currently, all exports of additional peanuts of any crop must be completed by August 31 of the marketing year for the crop, unless such deadline is specifically extended on application to program authorities wherein the particular peanuts to be exported are identified. In addition, transfers of export obligations are restricted after August 31. These provisions unnecessarily add to the regulatory paperwork that accompanies the program and do not take into consideration that the marketing year, as a practical matter, continues through November. The effect of the requirement is to preclude export sales that might otherwise be made. If this requirement for export prior to August 31 were removed, processors could take better advantage of late-developing markets for additional peanuts and more effectively manage their product export obligations without compromising the objectives of the program.

STATEMENT
on
ISSUES RELATING TO THE FORMULATION OF THE 1990 FARM BILL
for submission to the
HOUSE COMMITTEE ON AGRICULTURE
for the
U.S. CHAMBER OF COMMERCE
by
Stuart Hardy*
July 13, 1989

The U.S. Chamber of Commerce, the world's largest federation of businesses, state and local chambers of commerce and trade and professional associations, appreciates this opportunity to express its views on the formulation of the 1990 Farm Bill.

Production agriculture, once a nearly isolated economic activity, has become thoroughly integrated into a total food and fiber system, from supply industries to consumers. Altogether, the system accounts for one-fifth of the annual gross national product of the country and one of every five jobs in the national labor force.

Farm and commodity organizations rightly have a special role in the process of drafting omnibus farm and food legislation because producers are the chief beneficiaries of commodity programs that are the core of such legislation. However, other links in the food and fiber chain of industries also have a legitimate role in the legislative process, as well as consumers, taxpayers, environmentalists and other affected parties. Farm commodity programs have ripple effects throughout the food industry and beyond. Consequently, the "iron triangle" of farm organizations, Congress and the Department of Agriculture must be expanded to include new participants in the policymaking process representing all segments of an increasingly interdependent food system.

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* Stuart Hardy is Manager, Food and Agriculture Policy

Unlike other organizations, the Chamber's membership is drawn from all segments of the food chain, including suppliers, producers, traders, brokers, processors, distributors, wholesalers and retailers. This broad-based membership gives the Chamber a unique, system-wide perspective on food and farm policy and the ability to bring valuable insights to the policy dialogue. This broad vision is especially needed to restore balance to a legislative process too often dominated by commodity interests.

This paper reflects the Chamber's interest in how omnibus farm and food legislation affects the economic health of the total food system. Recommendations are restricted to those elements of the farm bill that affect the entire system.

The Food Security Act of 1985: A Transitional Measure

The Food Security Act of 1985 (1985 Act), together with a weaker dollar and rising world demand, is widely credited with restoring farm prosperity. The numbers are impressive. Net cash income has doubled under the 1985 Act, exports have risen 70 percent, land values stabilized and are once again rising, and program costs are trending downward after reaching a high of $26 billion in 1986. Farm-related businesses have also benefited from the 1985 Act, especially from policies that have spurred export activity.

Like its predecessors, the 1985 Act is an evolutionary measure containing large areas of policy continuity. But there was one dramatic break with tradition: nonrecourse loans for wheat, corn, feedgrains and soybeans were sharply reduced, and "marketing loans" for rice and cotton were mandated in an effort to regain world market competitiveness. In addition, generic and crop-specific certificates were introduced as a means of moving Commodity Credit Corporation (CCC) stocks into the marketplace. A third feature was the Export Enhancement Program (EEP), a temporary, tactical program aimed at rebutting unfair trading practices of other exporters in specific markets.

To this extent, the 1985 Act is a transitional measure moving agriculture from an era of domestic market orientation and strict price and supply regulation to an era of greater exposure to global market conditions. However, the transition is not complete. Commodity program incentives and constraints continue to skew planting decisions in ways inconsistent with market signals.

Specifically, there are several areas of concern that may threaten farm and agribusiness prosperity in future years. At the top of the agenda is the pressing need for greater planting freedom.

Planting Freedom Needed

Current commodity programs unintentionally discourage farmers from shifting acreage from target-price crops (wheat, corn, feedgrains, cotton or rice) to other crops, even when market conditions strongly signal for a shift. In particular, the corn program is having an undesirable effect on soybean and sunflower plantings. Acreage devoted to these oilseed crops has declined despite favorable market conditions. Farmers are opting for corn because of corn's relatively attractive target price and because farmers need to safeguard their corn base to protect their eligibility for program benefits in future years. A similar problem is affecting oats and causing domestic processors to import part of their requirements. Unlike oilseeds, oats have a target price, and growers are, therefore, eligible for deficiency payments. However, the oats target price ($1.50/bu.) is low relative to that of corn and other target-price crops.

In a dynamic global market, growers need the flexibility to shift from one crop to another to seize profit opportunities and capture export markets. At present, a farmer who responds to market signals and plants a non-program crop may be penalized in future years by diminishing his acreage base for a target-price crop. The need to establish and maintain a crop-specific base history also encourages monoculture and discourages crop rotation, a traditional crop management practice that enables growers to be less dependent on chemical inputs.

Crop-specific acreage bases were introduced in the Agriculture and Food Act of 1981 to tighten production control programs by linking bases to actual planting history. Bases were defined as the average acreage actually planted to a specific program crop during the two previous years. From then on, growers needed to establish a crop-specific base for wheat, corn, feedgrains, upland cotton or rice in order to participate in any of those programs and be eligible for target-price protection and deficiency payments. Farmers attempted to establish bases as large as possible because program benefits were henceforth paid only on crops produced on base acres. This became known as the "race for base." Soybeans and sunflowers were held harmless by permitting growers freely to substitute these crops for wheat, corn, feedgrains, cotton or rice without affecting their bases.

However, the 1985 Act changed the rules for establishing and maintaining base acreage for program crops. The two-year average was changed to a five-year average, making it more difficult to build a base, and soybeans and sunflowers were no longer acceptable as substitutes for target-price crops for purposes of base calculation. These rule changes, meant to give the Department of Agriculture tighter controls on production, had the unintended effect of discouraging oilseed plantings. Soybean and sunflower production has trended downward, and U.S. exports have declined, even though world demand for oilseeds has been growing steadily.

Congress addressed the problem, in last year's drought legislation, the Disaster Assistance Act of 1988, by giving the Secretary of Agriculture discretionary authority to permit soybean and sunflower plantings on 10 to 25 percent of wheat, corn, feedgrain, cotton and rice base acres in 1989 and 1990 without any loss of base, providing that the resulting increase in plantings would not unduly depress prices. Similarly, oats may be planted on corn acres without loss of base. Farmers have responded positively, and plantings are likely to increase this year and next. But the basic problem remains (oilseeds must still compete against target prices, not market prices), and this needs to be addressed in the 1990 Farm Bill.

Acreage Reduction Programs Are Excessive

Another problem area results from the Department of Agriculture's excessive reliance on annual acreage reduction programs (ARPS) as a tool to control crop production and lower farm program costs. Growing evidence suggests that the forced idling of millions of cropland acres undermines U.S. competitiveness by pushing up production costs and causing export markets to be forfeited due to the lack of grain supplies.

Any industry is severely disadvantaged when it operates well below its productive capacity. Fixed assets are idled, unit production costs rise, and competitiveness declines. This is especially true of U.S. agriculture, whose competitive edge is its highly productive cropland and its handling and distribution network. At a time of expanding world markets for farm products, government policies continue to idle nearly one-fourth of the total productive cropland base -- 78 million acres in 1988 and a projected 60 million acres in 1989. Even with good growing conditions this season, grain trade analysts are now predicting that the U.S. will have insufficient supplies to meet expanding global demand.

In June, Secretary of Agriculture Yeutter announced a 5 percent ARP for wheat in 1990, despite the fact that free stocks of wheat are at a 10-year low. A zero ARP was precluded because current program rules would increase budget exposure to unacceptable levels. Target-price protection would have to be extended to all wheat produced in 1990, even wheat grown in excess of producers' wheat bases.

The 1985 Act imposed limits on the Secretary of Agriculture's authority to mandate ARPs, and this initiative should be continued and strengthened in 1990 with the goal of eliminating these acreage-idling programs.

Freeing Stocks

Another area of concern is the difficulty of moving stocks into the market when they are needed. Commodity Credit Corporation (CCC) stocks are governed by a complex mathematical formula that often has the effect of setting minimum sales prices substantially higher than the target price. For example, 1988 corn cannot be released until the market price reaches $3.65, 72 cents above the target price. Commodity certificates were introduced several years ago to free CCC stocks that otherwise would have remained locked up, but this is not a permanent solution.

Similarly, Farmer Owned Reserve (FOR) stocks cannot be released to the market until prices reach the target price.

Release prices should be lowered to encourage CCC stocks to move into market channels at competitive price levels, e.g., 110 percent of loan levels. This will help to ensure that the U.S. does not again become the world's residual stocks holder by default. FOR stocks should be capped at modest quantitative levels and be free to return to normal market channels under more flexible conditions than at the present.

Leveraging Trade with Aid

Developing countries offer the potential of highly promising markets for U.S. food and farm exports. But export markets cannot be developed until indigenous economies grow strong enough to boost local living standards and spur effective consumer demand. The development of free and healthy private sectors in "Third World" countries offers the only prospect of generating wealth, improving diets, creating import markets and moving these countries from the category of aid recipients to the ranks of cash-paying trading partners.

Regrettably, U.S. aid policy has done little to foster indigenous free enterprise. Aid programs focus almost exclusively on famine relief and emergency human needs. These are essential humanitarian activities. However, the longer-term goals of foreign assistance -- economic and market development -- should not be overlooked.

The new farm bill provides an opportunity for Congress to correct this situation. In particular, Titles I and III of the Agricultural Trade Development Assistance Act of 1954, Public Law 83-480, as amended, should be reexamined to determine what measures should be taken to place greater emphasis on market development and the use of aid to stimulate demand and the ability to pay.

Drafting Law for the Future, Not the Present

The 1985 Act expires at the end of the 1990 crop year, and the process of drafting replacement legislation is already well under way. The new legislation provides an opportunity to address a number of current concerns, including those discussed in the previous section. However, the authors of the new bill must look to the future as well as the present because their work will govern agriculture well into the decade of the 1990's. Conditions then will likely be very different from the present.

On the global front, market reforms are rapidly being introduced not only in Communist countries but also in many of the centrally planned economies of the developing world. Meanwhile, the European Community's (EC) 1992 single market plan may rearrange the economic map of the world and create the world's largest trading bloc and consumer market.

A second development of major significance may be increasing public pressure throughout the developed world for more stringent environmental and health-related controls on both farms and agribusinesses.

In addition, new technologies -- both biological and informational -- are becoming available to farm producers and the food industry. Biological breakthroughs mean more products at lower costs while access to new forms of information will help managers to cope with risks and make better production and marketing decisions. The effect on the farm sector may be to accelerate the trend toward larger, more specialized units, moving farm businesses toward more conventional businesses. The effect on the food industry may be an acceleration of the trend toward niche or specialized marketing, more vertical integration and more global sourcing.

These and other global developments will almost certainly create a whole new set of challenges and opportunities for the U.S. farm and food sector during the 1990's. The 1985 Act successfully addressed many of the needs of the mid-1980's, but competitiveness is a moving target, and Congress will have to do more than "fine tune" the current programs in order to make them equal to the challenges of the next decade.

Policy Goals of the New Farm Bill

The Chamber suggests four basic objectives for the U.S. food and agricultural industry in 1990 and beyond. They are:

1. greater opportunity for farmers and ranchers to attain profitability in the marketplace;
2. improved competitiveness of U.S. food and agriculture in world markets;
3. an abundant and safe supply of affordable food for U.S. consumers; and
4. a sustainable, environmentally sound production system.

These broad objectives cannot be achieved through government mandates. They can only be realized by the private sector working in concert with prudent public policies that enable the food and agriculture industry to make needed adjustments to rapidly changing conditions. In particular, government programs designed to provide income and other assistance should do so in ways that do not distort production or trade.

A dynamic, highly competitive agricultural economy requires greater flexibility in farm program management. This measure of discretion, however, should operate within the stable context of consistent, long-term policy objectives. Producers should have some assurance that the rules of the game will not change in mid course, and they should not be subjected to the policy shifts and zigzags that have all too often characterized recent farm policy.

In support of these goals, the remainder of this paper suggests 10 farm program modifications that should be included in the 1990 Bill.

Recommended Modifications

The Chamber recommends 10 specific modifications of current policy:

1. Nonrecourse Loans for wheat, corn, feedgrains, cotton, rice and oilseeds should continue to be set by formula at levels that do not interfere with market prices. In addition, Congress should consider the substitution of recourse for nonrecourse loans.

2. Target Prices for wheat, corn, feedgrains, cotton and rice should be retained as a transitional mechanism providing growers with income protection. However, targets should continue to be lowered by annual increments until such time as deficiency payments are reduced to sustainable levels. There is also a need to rebalance targets in relationship to one another and in relationship with non-program crops to reflect changes in feed and food value.

3. Acreage Bases for wheat, corn, feedgrains, cotton and rice should not be crop-specific. Rather, they should be combined with normal oilseed plantings into a single farm base for each producer. They also should be frozen and eventually phased-out.

4. Annual ARPs and paid land diversions should be eliminated as a policy tool.

5. Stock Release Triggers for CCC stocks and the FOR should be lowered substantially.

6. The Dairy Program should continue to be governed by a formula that balances supply and demand.

7. The EEP should be reauthorized as a tactical measure to assist U.S. exporters in specific markets for specific commodities in response to competitors' unfair trading practices. EEP criteria should be made more transparent to both buyers and exporters. EEP should not be institutionalized as a permanent feature of U.S. policy, nor should it be operated as a national grain board.

8. The P.L. 83-480 Program (Titles I and III) should be redirected toward projects that will boost private enterprise and generate demand for U.S. food and farm exports.

9. The Conservation Reserve Program should be continued and participants should be allowed to extend contracts beyond 10 years. The goal of 40-45 million acres should be reaffirmed but not increased. Eligible acres should be broadened in to include the full range of environmentally damaging land uses.

10. Low Input, Sustainable Agriculture (LISA) principles are attractive under certain circumstances because less intensive use of pesticides and chemical fertilizer may lower farm production costs, reduce chemical residues in food and well water and sharply curb chemical run-off from farm fields into the nation's waterways. However, LISA practices require further research and experimentation to determine how they may best be applied to different crops, soil type and growing condition. LISA principles should not be confused with "organic" farming or the total elimination of chemical inputs, which are needed to provide pest- and disease-free crops at prices consumers can afford.

The Chamber appreciates this opportunity to present its views on the direction of agriculture policy and looks forward to working with the Committee on Agriculture on this vital legislation in the months ahead.

(Attachment follows:)

The U.S. Chamber of Commerce is the world's largest federation of business companies and associations and is the principal spokesman for the American business community. It represents nearly 180,000 businesses and organizations, such as local/state chambers of commerce and trade/professional associations.

More than 93 percent of the Chamber's members are small business firms with fewer than 100 employees, 45 percent with fewer than 10 employees. Yet, virtually all of the nation's largest companies are also active members. We are particularly cognizant of the problems of smaller businesses, as well as issues facing the business community at large.

Besides representing a cross section of the American business community in terms of number of employees, the Chamber represents a wide management spectrum by type of business and location. Each major classification of American business—manufacturing, retailing, services, construction, wholesaling, and finance—numbers more than 10,000 members. Yet no one group constitutes as much as 32 percent of the total membership, Further, the Chamber has substantial membership in all 50 states.

The Chamber's international reach is substantial as well. It believes that global interdependence provides an opportunity, not a threat. In addition to the 59 American Chambers of Commerce Abroad, an increasing number of members are engaged in the export and import of both goods and services and have ongoing investment activities. The Chamber favors strengthened international competitiveness and opposes artificial U.S. and foreign barriers to international business.

Positions on national issues are developed by a cross section of its members serving on committees, subcommittees and task forces. Currently, some 1,800 business people participate in this process.

NATIONAL ASSOCIATION OF STATE FORESTERS

STATEMENT OF
THE NATIONAL ASSOCIATION OF STATE FORESTERS
BEFORE
THE U.S. HOUSE OF REPRESENTATIVES
COMMITTEE ON AGRICULTURE
ON THE 1990 FARM BILL
JULY 13, 1989

The National Association of State Foresters (NASF) appreciates the opportunity of submitting a written statement before your committee to represent NASF's views on the 1990 Farm Bill.

NASF was founded in 1926 and represents the directors of the forestry agencies of the fifty states. In that capacity, they have the responsibility of overseeing the management and protection of state and privately owned forest land . Collectively, state forestry agencies protect, service or manage over 80 percent of this nation's forest land--or about 500 million acres. They work cooperatively with private, Federal and other state agencies, organizations and individuals in directing and strengthening all forestry programs.

We praise the scope and objectives of the Food Security Act of 1985 conservation provisions as they have shown foresight and resultant success. The Conservation Reserve Program (CRP) is one example of this success. The CRP has reduced the amount of soil erosion by 600 million tons by removing over thirty million acres of highly erodible cropland from production and putting it into sustainable cover crops. The CRP at the same time has reduced the surplus of agricultural commodities that have been costing the nation millions of dollars.

The 1985 landmark legislation established a national goal that one-eighth or 12.5 percent of the acres enrolled in the CRP would be planted in trees. However, to date, the goal has been far short of its objective. The costs are minimal compared to the many benefits provided by converting cropland into trees. Trees not only preclude wind and scour erosion; they enhance the quality of our water resources and wildlife and provide the landowner with a future of economic opportunity. Perhaps one of the most overlooked benefits of tree planting is the fact that it is highly probable the trees will remain on the land for many years after the CRP contract period has concluded -- long after hays and grasses on other contract land have been plowed under.

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Many of the Southern states have been successful in meeting or even exceeding the national goal. However, the vast majority of acres enrolled into the CRP are located in areas outside of these southern states. It is in these areas of the nation where there exists a great potential for increasing the percentage of tree planting acres.

Windbreaks, shelterbelts, filter strips, wildlife plantings and hardwood tree planting offer the most opportunity for tree planting where a majority of the land eligible for CRP occurs. These types of planting offer the best long-term solutions, even beyond the contract period, to abate wind and water erosion. However, changes are needed in the Conservation Reserve Program to provide incentives which are positive enough to persuade farmers to plant their land in trees.

PRIORITY RECOMMENDATIONS

There are a number of potential CRP changes that will result in more tree planting. The National Association of State Foresters believes that priority should be given to the following changes:

- Extend contracts to 15 years for the planting of windbreaks, shelterbelts, and hardwoods only
- Allow existing CRP contracts to be modified and provide cost-sharing for the conversion of grass acres to trees or shrubs
- Included marginal pastureland in CRP for tree and shrub planting

NASF feels strongly that these changes offer the greatest opportunity for increasing tree planting on CRP acres and should be pursued by both Congress and the USDA. NASF understands that implementing these changes would require additional CRP funding. However, by focusing tree planting efforts to the least productive and most highly erodible acres, these acres will in effect be removed from agricultural production for a period of time far in excess of the contract period. This will provide many long term benefits to society for as long as the trees remain in place.

ADDITIONAL CHANGES

Additional changes that NASF feels would result in more tree planting acres include:

- Offer bonuses for tree plantings, windbreaks, shelterbelts, and wildlife habitat
- Permit planting of 10 or more acres to extend over three years to help spread out the costs incurred in the first year and minimize risk to the farmer

- Allow windbreaks and shelterbelts to be planted on any land as long as they protect highly erodible cropland

- Increase the cost-share ratio to 75 percent for windbreaks, shelterbelts, and wildlife plantings (CP-4 and CP-5)

- Include a check-off on the CRP signup sheet indicating that the landowner has been informed of tree planting opportunities

- Cost-share for cultivation, herbicides and other practices necessary to establish trees during the first 4 years of the CRP

- Allow USDA increased discretion in raising the 25% caps at the county level, and more flexibility in determining cropping history as it relates to eligibility requirements

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FORMULATION OF THE 1990 FARM BILL
(Secretary of Agriculture Clayton Yeutter)

WEDNESDAY, JULY 19, 1989

House of Representatives,
Committee on Agriculture,
Washington, DC.

The committee met, pursuant to notice, at 9:30 a.m., in room 1300, Longworth House Office Building, Hon. E (Kika) de la Garza (chairman of the committee) presiding.

Present: Representatives English, Panetta, Huckaby, Glickman, Stenholm, Volkmer, Hatcher, Tallon, Staggers, Olin, Penny, Stallings, Nagle, Jontz, Johnson, Harris, Campbell, Espy, Sarpalius, Long, Dyson, Lancaster, Madigan, Coleman, Marlenee, Hopkins, Stangeland, Roberts, Emerson, Gunderson, Lewis, Smith, Combest, Schuette, Grandy, Herger, Holloway, Walsh, and Grant.

Staff present: Bert R. Peña, staff director; Daniel E. Brinza, counsel; Charles Hilty, minority staff director; William E. O'Conner, Jr., assistant minority staff director; John E. Hogan, minority counsel; Alice Devine, minority associate counsel; Glenda L. Temple, clerk; James R. Lyons, James A Davis, Joe Dugan, and Thomas H. Lederer.

OPENING STATEMENT OF HON. E (KIKA) de la GARZA, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

The Chairman. The committee will be in order. Today we have asked the Secretary of Agriculture, Mr. Clayton Yeutter, to provide the committee with his thoughts on the direction of the next farm bill. We are happy to welcome Deputy Secretary Parnell and Secretary Crowder who are accompanying Secretary Yeutter.

The committee takes pride in developing legislation that both Democrats and Republicans can support. Together, we can do the best possible job for American agriculture. I want to see this cooperative spirit in farm policy continue as we have had in the past, not just here in this committee or over on the House floor but between us, USDA, and the administration.

Farm policy is not developed in a vacuum or in ivory towers. The members of this committee represent every major agricultural region in the country. We are elected to be the voice of our constituents' concerns. We serve on this committee to help develop policies that can best meet the needs of our Nation's food and fiber sector.

At our previous hearings on the 1990 farm bill we heard from a wide range of people. We had before us, Members of Congress, Governors, and nearly 50 representatives of organizations interested in agricultural policy. Many talked about the 1985 farm bill's successes. Others talked about its downfalls. All of us who are participating in this process want to develop the best possible farm policy for all Americans. In fact, we will be dealing with the world.

We are always searching for new ideas and a better way to make farm policy serve the interests of our farmers, consumers, and taxpayers, most importantly. We will not always agree on the specific way to achieve our farm policy goals, but together we can build on the successes of the 1985 Food Security Act. Together, we can make agricultural policy work better for everyone. I look forward to hearing your views, Mr. Secretary, on the 1990 farm bill, and in working with the administration in the months to come.

With that, we are happy to have you here, and we will hear from you at this time. Do you have a prepared text? Without objection, it will appear in the record in its entirety, and you may either summarize, quote from it, or use your statement as you feel more comfortable. Once again, we welcome you and we appreciate your being here.

STATEMENT OF CLAYTON YEUTTER, SECRETARY, U.S. DEPARTMENT OF AGRICULTURE, ACCOMPANIED BY JACK PARNELL, DEPUTY SECRETARY, AND RICHARD CROWDER, UNDER SECRETARY, INTERNATIONAL AFFAIRS AND COMMODITY PROGRAMS

Secretary **Yeutter**. Thank you very much, Mr. Chairman. It is always a pleasure to appear before you and this committee. And the subject of this hearing is one of great importance to all of us and to the Nation and for that matter to the world as a whole. I would like to depart from my prepared text in a very major way this morning, and talk philosophically about the farm bill of 1990, and in fact, perhaps more accurately, about the farm bills of the 1990's. We need to be contemplating this issue in terms of a decade or more into the future rather than simply in terms of what we might do in 1990. So I would like to give it that kind of focus.

My first comment would be that as we develop this legislation next year, we clearly must do so, Mr. Chairman, with realization that we are operating in a global marketplace. You have heard me say that before. Lots of other people have said it. Sometimes it seems just rhetoric, but we have to recognize that it is reflective and representative of the real world.

We are going to be working ourselves a great deal on the 1990 farm bill and doing it in that context. Secretary Crowder is here with me this morning and is chairing our internal committee that is working on our preparations and will be doing so over the next several months.

The reason I mention that, Mr. Chairman, was that just a couple of days ago I spoke to the Western Governors Conference in Long Beach, and I spent about 2 hours seminaring with those Governors, from a dozen or more western States, in what was really a fascinating interchange of views, and a true reflection of just how much of this world is global in its scope and how important that is to all of us.

All of the attention in that 2 hours was devoted to how these States can do more to move products that are produced in their respective geographic areas, how we can move those into the world market. And as you said, Mr. Chairman, in your opening statement, agricultural policy ought to be handled on a bipartisan basis. It was remarkable to me to observe that this was precisely the way those western Governors were operating. There was a mix of about half Democratic, half Republican Governors in that group, and I did not hear one word of partisanship in more than 2 hours of discussions.

It was all devoted to how they can work together better including joint programs State to State in enhancing their own marketing endeavors internationally. I thought to myself as I rode the airplane on the way back to Washington, DC, that this is precisely the way we ought to operate here in Washington, both in this committee and in the Senate Agriculture Committee, and in relationships between the committees and the administration as we work on foreign policy issues because they have the same global connotation as did the issues that were being discussed by the Governors.

With that as background, I would like to be at least a bit more specific. The first point I would make is that we certainly need to design legislation that will commit American agriculture to compete internationally in the coming years and decades. We have to make a national commitment to compete in a global marketplace and establish a political institutional framework that will facilitate that.

This gets into the issue of flexibility as people have described it in recent weeks and months. I like the word responsiveness better than flexibility. We have to be responsive to changing supply-demand conditions throughout the world and responsive in particular to changes in marketing opportunities that emerge.

To use some even more specific examples of some challenges that we have in that area, it would appear from our present framework that we are not committed to competing in soybeans. We ought to be committed to competing in soybeans. Yet since 1982, our U.S. acreage of soybeans is down 11 million. We are 11 million acres lower in production than we were 7 years ago. In that same timeframe our Latin American neighbors have increased soybean production by about 15 million acres, more than what we have reduced.

That is not a commitment to competition. I make the same comment with respect to oats, which has been a winner here recently thanks to oat bran and a lot of interest in our consumer sector. We are an importer of oats today, not because our farmers do not see market opportunities there, and it is not because our soybean farmers have not observed market opportunities. It is because the institutional structure of our farm programs tilts the playing field of the world against them on soybeans and also on oats.

As a result of our free-trade arrangement with Canada, our Canadian friends recently lifted their import licensing requirements on oats so we could not only be producing oats for the American market today, we could be exporting oats to Canada if we had anything to sell. But we do not have anything to sell because we are not committed to competing in oats today.

Even in the dairy area, and some of you here represent dairy States, for 50 years now or thereabouts our orientation in dairy policy has been one that is directed toward avoiding import competition and sustaining high domestic price support levels to enhance incomes for American dairy producers. We have not thought globally or thought internationally in dairy ever, until just recently.

In the past 2 or 3 years now, we have begun to export some nonfat dry milk and commendably, we are now seeing some folks in the dairy industry who are beginning to say, gee, maybe there is a market out there. Maybe we ought to make some institutional changes that will put us in the global marketplace in dairy. Well, that is a debate that we ought to have as a part of the 1990 farm bill.

Congressman Gunderson and I have already had some discussions about that, but there are others around this table equally interested. It is a new world out there and we need to explore some of that. Going beyond the question of responsiveness and flexibility and the commitment to compete, let us talk a bit about the underlying competitiveness of American agriculture. Because if we are going to operate in that global marketplace, if we are going to be committed to compete, we better be able to compete.

We have to ensure that American agriculture is truly competitive and will remain competitive for years or hopefully decades in the future. That raises some specific issues that also ought to be on our platter between now and the time we finalize the 1990 farm bill. One of those relates to research technology. How do we make sure that we are in the leading edge of agricultural technology and that we have an advantage, a comparative advantage over our competitors around the world that is technology based?

Well, we are not going to be there unless we make an investment in agricultural research and technology that will get us there. That gets into budget priorities, of course, which is a subject somewhat peripheral to the one before us this morning but not entirely unrelated. And it may call for some legislation, too. Let me give a couple of instances in this area.

Charlie Hess, our new Assistant Secretary for Science and Education, has been working in his earlier incarnation outside of the Government on a $500 million research initiative, a national research initiative. We will have some debate within the administration on that in the next several months. He will be meeting with many of you, maybe all of you, to talk about that program in the next several months, too.

Well, $500 million is a lot of money. Do we want to spend $500 million to move ourselves to the cutting edge of agricultural research? Do we want to spend $500 million to be out front in this area over the next several years, and if so, where do we get the money? Do we find it as an add-on somewhere? Or do we make it as an investment? That is do we cut back on some of our immediate expenditures for price income supports or other such programs and invest it in a broad-based research program intended to make a quantum leap forward?

Well, that is a decision that ought to be mulled very carefully by everybody sitting in this room, executive branch and legislative branch. In that regard, how much money should we spend on new uses for agricultural products? There is some on the surface. We have talked about biodegradable plastics. That is one. One that is maybe even closer to the horizon is ethanol. What kind of a commitment should we as an agricultural committee make in ethanol research between now and 1995?

As most of you know, the President is going to surface a clean air bill very soon. Clean air is going to be debated endlessly here in the Congress over the next several months. One of the possibilities that may emerge from that bill is a requirement to produce vehicles burning clean fuels, neat fuels, as some would put it. The President's bill would call for that number to be 500,000 vehicles in 1995, and 1 million a year by 1997. Are they going to burn ethanol? Are they going to burn methanol? What are they going to burn?

Does agriculture have some market opportunities in that area that are not now available? In economic terms, we could not today compete for that market. But a lot can happen between now and 1995. The question is: Do we want to make some of that happen between now and 1995 and formulate the investment to do that?

Put new crops into the same category. Do we want additional research on crops like milkweed going into textiles or kenaf going into paper products? Those are the kinds of research issues that we must discuss. Let us move to another area. And that would be the question of export opportunities, the area in which the Governors were focusing in Long Beach just a couple of days ago. This gets into the question of trade negotiations, of course, in the Uruguay Round in Geneva.

My observation from spending a lot of time on that issue over the last 4 years and spending some time in discussions with key folks in the international scene in just the last few months is that the tide is changing in this whole question of international commerce. It is changing everywhere, and it has implications to agricultural policy.

It has implications to how we write our farm bill in 1990 and beyond. It has implications on how everybody else writes their farm bills. I have heard some comment here that we are going to write our farm bill in Washington, DC. We are not going to let those folks write it in Geneva. That is OK. It will be written in Washington, and the European Community will write their farm bills in Brussels. The Japanese will write their farm bills in Tokyo. Brazil will write its farm bills in Brasilia.

But it would be foolish indeed if we wrote our farm bill oblivious to what is happening in those other countries and oblivious to what is happening in Geneva, and vice versa. We are all in the same boat together, and we cannot escape it. We will never be able to isolate American agriculture from the world again, and we ought not even try. It would be foolish to do so, and it would not be in our own self-interest to do so.

Why is this situation changing? It seems to me it is changing for a lot of reasons. And it is changing everywhere, not just here, everywhere. Part of those reasons are altruistic. In other words, it is changing because people recognize that we are going to feed another billion people in the world by the end of this century somehow, and maybe we can play a role in feeding them. And it is a recognition that a lot of those billion people and a lot of others who are in relatively low-income status have to sell something if they are going to buy things.

They have to be able to sell agricultural products or industrial products or both if they are going to buy our agricultural products or other industrial products. So there is some altruism in all of this. But there are also internal pressures and external pressures. With internal pressures, it is a question of what taxpayers feel and what consumers feel. We are seeing consumers rise up in Japan. For the first time ever we are seeing women in Japan expressing themselves in an aggressive way for the first time ever on this and other issues.

We are seeing the same thing happen in Western Europe today and in some of our other countries. Even the Scandinavian countries are reflecting the views of taxpayers and consumers more than ever before. We are also seeing it from external pressures arising out of the negotiations whether they be bilateral or multilateral. The upshot of that, Mr. Chairman and members of the committee, is that it seems to me that we have a unique opportunity to change the face of agricultural policy institutions around the world and in the next 18 months—and that is not very long—18 months, we have to decide whether we are going to seize that opportunity or forego it.

We can go either way. You as a committee can make that decision go either way. You can tilt that one, that playing field however you wish. We can tilt it against global negotiations. We can tilt that negotiating exercise in such a way that it assuredly will not succeed in agriculture if that be our objective. Or, we can tilt it the other way in my judgment toward having a successful negotiation and one which would be enormously beneficial to not only our agriculture but world agriculture.

But this is a critical time, ladies and gentlemen, in the history of agricultural policy internationally. What will or will not happen over the next 18 months will change the face of global agriculture for many, many years to come. We can either do it right or do it wrong. We have some models to emulate. It is not that this is such a complex issue that nobody can understand it. It is not that complex. There is a lot happening in Geneva, 15 negotiating groups, only one of which is agricultural. But fundamentally, what we would like to see happen in agriculture is not that complex.

The Japanese example on beef should be one that we would emulate multinationally in many respects. What we did in beef in Japan was convince our Japanese friends to convert all their nontariff barriers, and there were a whole slew of them, into tariffs, and then we negotiated the tariffs down. We negotiated them downward over a period of about 5 years, and we preserved the privilege of negotiating them down still further in the Uruguay Round.

If we could get the whole world to convert their nontariff measures in agriculture to tariffs, we would make an enormous contribution indeed. Well, I have used too much time, Mr. Chairman. Let me just quickly hit a few management issues, and then we will go to questions.

Stocks, we are spending about $1 to $2 billion a year, Mr. Chairman, right now on stocks policy under our existing farm bill. That is a big price tag. We need to assess as we go into the 1990 farm bill debate whether we can afford to do that. It seems to me that our objective in stock holding should be one of facilitating export trade, facilitating sales and markets, not one of simply putting additional dollars in the pockets of those who store that grain.

Storage is important, but it should be the secondary consideration, not the primary consideration. And those stocks should be accessible. I think most of you know that as much as prices moved this past year due to the 1988 drought, most of our stocks still were not accessible to the market. They did not come into the marketplace. And it seems to me that as we look to 1990 we need to make those stocks more accessible.

EEP, the Export Enhancement Program, source of significant leverage to us in the negotiations, we are going to have budgetary constraints applied to it. You have gone through some of that discussion here in the last few days. We are going to have to try to get the most bang for the buck with limited EEP resources over the next 18 months in particular.

Public Law 480, Food for Peace. We have not talked about that very much in this committee or elsewhere. It seems to me that as we go to the 1990 farm bill that now is the time to reappraise where we are going with the Food for Peace Program. How do we want to balance the humanitarian considerations, foreign policy considerations, and market development considerations in Public Law 480 over the next several months?

Crop insurance. That comes up in the context of drought and disaster legislation and drought and disaster administration, an issue that has been on your front burner and mine in recent weeks. We have a situation now and have had over the last couple of years where we have had a duplication, to at least some degree, between crop insurance and the ad hoc disaster programs and that is not the most cost effective way to deal with drought and disaster issues.

It seems to me that we ought to do better and we ought to try to design an improved program in the 1990 farm legislation or in separate legislation.

Loan programs. With budgetary austerity facing all of us in the next few years, it is time for us to take a look at Farmers Home loans, REA loans, all our other loan programs. We are today still making rural housing loans, if I remember correctly, at as low as 1 percent interest. That is an enormous Federal subsidy. Can we afford doing rural housing at 1 percent interest?

We are making farm operating loans to some individuals at interest rates half or less than half what their neighbors down the road are paying. And I am hearing more and more from farmers saying: Why am I paying 12 or 13 percent interest and the guy across the street is paying half that much, but really is not paying at all because nobody is asking him to pay interest. Therefore, he has about a 12 or 13 percent cost advantage on his money vis-a-vis my operation, and he has been doing it for years. Why are you operating that way?

It seems to me that is a legitimate question. Finally, just quickly, the broader agenda. We could spend a couple of hours on this, but we do not have the time. Environmental issues are at the top of that list and clearly environmental questions are going to be on your agenda and ours in the 1990 farm bill—the conservation reserve and others. Food safety is a major issue. Secretary Parnell has been working hard on food safety with respect to the Waxman legislation and others. Some of that may spill into the farm bill in 1990. And then finally, rural development. We could spend additional time on that, too, but I want to mention it, Mr. Chairman, because in my judgment, our constituency, yours and mine, is a constituency of the entire rural community, not just farmers but everybody living in rural areas.

There are about 60 million people out there. About 5 million are on farms. The rest of them are in small towns. But it seems apparent to me that they are our constituency too, and jobs that are created in those small towns are important to all of us. The question is: Do your farm kids have to go run for Congress to find a job outside of their community, or can they get something at home? Let us hope that they can find a few jobs at home. That is what rural development is all about.

We ought to look at some of the examples around the country. Look what the Northeast has done with some of their small industries in rural areas. And in the South, I was just in South Carolina recently. I think what South Carolina has done in tourism and forestry is remarkable. We have some successes to emulate in rural development, but I think there is a role for the Federal Government, for this committee, and for USDA in that area, and we ought to explore that more fully, too, in the 1990 farm bill.

That is a big agenda, Mr. Chairman, a longer agenda than I wanted to articulate, but I hope it will help somewhat. Thank you.

[The prepared statement of Secretary Yeutter appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you very much, Mr. Secretary. I am sure the members will be interested in following up in some of these areas with you. First, thank you, and Secretary Parnell and Secretary Crowder. We are just about to begin the process of oversight and developing legislation to incorporate, hopefully, into the 1990 farm bill on rural economic development. A lot of people think that when you say rural development, it is just another program for the farmers. But we are talking about infrastructure. Someone who lives out in rural America is entitled, the same as every other American, to good roads and to good schools and to the availability of making a decent living if they want to continue living on the farm but cannot make a living off the farm.

We are trying to help all that we can to stay on the farm. All that is encompassed in the economic development of rural America, and we hope for your cooperation. Of late, I get asked why you have not done anything for the environment. And I say sodbuster. You have not done anything for the wildlife. You have not done anything out in the countryside. I say swampbuster.

You have not done anything on food safety, pesticides. I say FIFRA, and last year's core bill, and we are still working on it. Somehow what we do positive does not get articulated and does not get the media coverage because when you do what you are supposed to do no one notices. This is very frustrating.

As a matter of fact, you mentioned rural development, and in our area there are problems with water. We have some areas called colonias, and people are saying no one is doing anything. I have been working with Farmers Home Administration. I met you some 18, 20 years ago when you were in the Department of Agriculture and came down to my area. We worked on a program, if you might recall, Mr. Secretary, of establishing a cafeteria in Weslaco and Mission because they did not have local funds. Most of the kids were poor kids from colonias. I would like to know, do you have any figures as far as colonias, at least in my area of south Texas, from Farmers Home for water and sewer?

Secretary YEUTTER. Yes, I do, Mr. Chairman. My folks tell me that Farmers Home has invested something over $30 million in the area of the colonias in south Texas, so that is a very substantial investment indeed.

The CHAIRMAN. I appreciate it. I would certainly hope that it is. But somehow a lot of people have discovered the colonias, and say no one is doing anything. I have figures of something $38 million. So it is over $30 million in about the past 10 or 15 years. We have yet a ways to go. We still have to cover some areas, but I appreciate that very much.

You did not mention, Mr. Secretary, external debt of developing countries. Maybe because of my geographic location and interest, but our perusal of the situation indicates that as the external debt of a developing country increases almost in direct proportion the sale of U.S. agricultural products decreases. We deal with Mexico because that is the one that is being used as a model.

I have been working very diligently with Ambassador Petrocholi, and from the President of Mexico on down. This morning, there was a press conference by the Center for Strategic Studies and the congressional study group have a report on what they have done in Mexico. I could not go because I was here waiting for you, but we have been working and I have been working on this. I have submitted options to the so-called Brady plan. As a matter of fact, I may have submitted more than Mr. Brady has. It probably should be called Brady-de la Garza. [Laughter.]

But I am not looking for that kind of name addition to any law. But would you mention from your perusal the debt situation and what we can do or what we are doing in relation to trade?

Secretary YEUTTER. Sure. I would be happy to comment on that, Mr. Chairman. And, as a matter of fact, I did discuss that very subject with the western Governors when I was in Long Beach. And that was done because of their great interest in Latin America with some of those States being on the border of Mexico. One of the points I made to them, Mr. Chairman, was that I thought we might well have additional sales opportunities into Latin America in the next few years if we can make progress on the debt issue.

Mexico is without question the first candidate in that area, and as you know, those negotiations are now underway. Secretary Brady indicated yesterday that we are very close to an agreement with Mexico. It is not yet finalized, but we are very close. If that one occurs, then I would be hopeful that others would follow and that we could well see a very significant improvement in the handling of the Latin American debt issues. As you know, much of the developing country debt is in Latin America. So to me that is potential good news for American agriculture.

I fully concur with your assessment that their debt burden has very significantly limited our exports in recent years.

The CHAIRMAN. Thank you very much, Mr. Secretary. Aside from Mr. Madigan, we will follow the same procedure. The member's time of arrival has been noted by the clerk, and we will proceed accordingly, as is the practice of the committee. We have a journal vote at this point. Mr. Secretary, if you would like to take a little 5-minute break while we go record our votes and return promptly. The committee will stand in recess.

[Recess taken.]

The CHAIRMAN. The committee will be in order. Mr. Madigan.

Mr. MADIGAN. Thank you, Mr. Chairman. Mr. Secretary, I want to join the author of the de la Garza-Brady proposal in welcoming you to the committee this morning long with Secretary Crowder and Secretary Parnell. I would like to make a couple comments on things that you have touched upon and just ask you very quickly two questions at the end of that, if I may.

May I say at the outset that rural development ideas are very important to this committee. We have in the process right now going through the congressional process a proposal to change the manner in which physicians and surgeons are reimbursed under Medicare so that rural area situated doctors will receive more money and urban area situated doctors will receive less, and we hope that that will help in recruiting doctors in small towns and keeping doctors in small towns.

But if there is anyone in the Department of Agriculture who has any ideas about other things like that that can be done that would be of benefit to rural areas and small communities, we would certainly like to have those ideas shared with us.

I would also like to say in response to your comments about food safety, we would like to do that apart from the farm bill. We would like to be responsive in the food safety area, but we would certainly like to do that apart from the farm bill because it seems to me that that is a wonderful way to screw up the farm bill if we start getting into things like that when we should be talking about producer income and availability of food. Those things very well could be at conflict.

Your comments about ethanol are very interesting to me. In my own view, it is a preferable fuel to methanol because it is potentially produced domestically where methanol seems clearly to be an import item. But members of this committee have been trying for years to find some way to move the ethanol thing forward, and again, if there are ideas that anyone in the Department has on what we can do that we have not done, we would certainly like to have those ideas shared with us.

I am confident as a member of the committee that will move the bill that the President's provision on alternative fuel vehicles is going to be in the final product. But I am just as confident that ethanol is not going to be that alternative fuel unless we find some way to deal with that beyond what we have been able to do so far. In the area you commented about soybeans and oats, and we did move a bill out of here last week that recognizes that we think the feature in the 1985 farm bill that requires people to plant corn in order to protect their base is part of the problem there.

But if there are more ideas that you or anyone in your Department have about that, we would be happy to have those shared with us as well. And finally, I would ask you, if I may, with regard to agricultural research, if you have specific suggestions to us as to how research efforts should be targeted other than the ethanol thing that I have referred to. And again, I thank you for sharing the time with us this morning.

Secretary YEUTTER. Thank you, Mr. Madigan. I will just comment very briefly on those. First of all, as to Medicare I have nothing to add to that other than to say to you something that might be of at least some interest. It appears now that our White House fellow for next year at USDA will probably be a physician. We asked for that because of the importance of food safety and other issues in that arena. And we think we will have a very talented young person with that kind of background who will join us for 1 year and could make some contributions in the food safety area and elsewhere.

On food safety itself, as you know, Secretary Parnell has been working on that very diligently. You yourself have played a major role and the final chapter of that question with respect to the so-called Waxman bill is yet to be written. We will be working with you on that. Ethanol, we all need to spend some more time on that relatively soon to determine whether we believe that an expanded research effort might pay dividends in that area between now and 1995.

I do not know the answer to that question today, but I know that if I sit here and do nothing that ethanol will not be the preferred choice in 1995. What we need to assess is whether we have a realistic chance of having it become the preferred choice between now and 1995. That is going to require some specific expertise to give us a feel for that.

On bases, Secretary Crowder and his folks are doing a lot of work on that subject. As you know, there are a whole variety of alternative ways to structure bases, going all the way back to the way we did them in the 1970's which seemed to work maybe better than the way we have been doing them in the 1980's in some regard. We will do a full-scale analysis of that and then come back and talk with you about it some more between now and the end of the year.

Research, as I said, as soon as Dr. Hess is ready, we will spend some more time with all of you on the research issue.

The CHAIRMAN. I thank the gentleman. We will proceed now on the order of arrival on one side and then the other. Mr. Glickman.

Mr. GLICKMAN. Thank you very much, Mr. Chairman. Welcome, Mr. Secretary. It is a pleasure to have you and Secretary Chowder—I mean Crowder, a little inside joke here between Mr. Marlenee. [Laughter.]

First of all, will you submit a farm bill to the Congress, and if so, when?

Secretary YEUTTER. We have not decided on that yet and probably will not for several months, Congressman Glickman. Obviously, that depends on our own analysis of issues and our own view of the strategy that would be most appropriate from our viewpoint. But my present inclination would be to answer that question affirmatively. We might change our mind for some reason between now and the end of the year, but my inclination at the moment would be that we submit one.

I recognize that that will make it a target, but so be it. Sometimes that is the price one pays for focusing issues, and it seems to me that maybe it would be appropriate to focus the issues. When? Probably toward the end of the year.

Mr. GLICKMAN. Yes. I just would strongly urge you to formalize your ideas. It is true that we will shoot at it, but it is also true that you have ideas of where you want farm policy to go, and you talked about how we on the committee have the choice of going down one road or the other. Well, if you do not give us your ideas, you are going to make it a lot less likely which road we go down. So I think you need to do that.

Secretary YEUTTER. You bet. Thank you.

Mr. GLICKMAN. On the Export Enhancement Program, as you know, this committee in its budget reconciliation package and the Appropriations Committee have basically limited spending to no more than we spent last year, which actually gives us some savings in terms of the budget. I think there are a couple of reasons for that. One was because we needed to save money. Two, we did not think we were going to use it as much as we had in previous years. And three, there has been some concern about how, in fact, it has been used in recent years.

And I know that you are undergoing an internal review of this program. Do you support what we did in terms of capping the program at last year's level?

Secretary YEUTTER. As you know from previous testimony, I would prefer that we not have a cap. I realize that budget considerations are very difficult for all of us. You had an obligation to come up with $600 million from somewhere and that is not an easy challenge. I think we would argue whether there are any budget savings in this regard. We, the Department of Agriculture, have been telling OMB for a long time that EEP is budget neutral, and if it is budget neutral, then there are no savings, of course, achieved by cutting it back.

We will let CBO and OMB debate that issue in terms of the budget process. In terms of the international impact, obviously that cuts back our leverage a bit, and that is clearly the downside of capping or limiting EEP in any respect.

Mr. GLICKMAN. I would say that I know we have talked about this privately, but at least my subcommittee is going to have another hearing on this issue. We intend to do continued oversight on this. If there were problems, most of them occurred before you came in. But I want you to know that that oversight will continue over how it is operating, whether there are standards for the way it is operating to make sure we do not have any problems there.

Secretary YEUTTER. Let me say for the benefit of the rest of the committee, Mr. Glickman, because you have worked very diligently on this, we appreciate the oversight because in our judgment there were some shortcomings in the administration of that program. We think we are getting a handle on those, but oversight is helpful in that regard.

Mr. GLICKMAN. Just a couple quick points. I appreciate your comments on the food reserve, on the carry over of stocks. We do need to review the whole food reserve policy to determine what our role should be both in protecting domestic food supply as well as world food supply. And I look forward to working with you on that. With respect to farm credit, I still believe that the way to get rural economic development, as the chairman talks about it, is to provide the same incentives to invest in rural America as there are in urban America.

One of my ideas is to expand on the Farm Credit System's role and get them into the lending business of rural economic development, and I hope you would view that cooperatively.

The fifth question, I want to give you an opportunity to respond to something, and knowing that not everything that is in the paper is accurate, Jack Anderson wrote a column which is in yesterday's paper. And I think they took some gratuitous shots at you which are not totally accurate.

Secretary YEUTTER. Quite a few. [Laughter.]

Mr. GLICKMAN. However, they did say the following.

And I wanted to get your opinion. They said, "When it comes to stirring up public anger against farmers, no one does it better than Yeutter." At a recent speech at the American Seed Growers Association, Yeutter said, "The Federal deficit would double or even triple if all requests for farm aid were honored."

And I wonder if you could amplify on that because that has caused some consternation out there in the countryside, and I just cannot imagine you would have made a statement like that.

Secretary YEUTTER. Well, that was——

The CHAIRMAN. The time of the gentleman has expired. [Laughter.]

Secretary YEUTTER. Gee, Mr. Chairman, I thought you were my friend.

Mr. GLICKMAN. Could the Secretary answer that?

The CHAIRMAN. Would the members allow the Secretary to reply? You may proceed, Mr. Secretary.

Secretary YEUTTER. Thank you, Mr. Chairman. Thank you for asking the question, Mr. Glickman, because I would be happy to clarify that. That was a facetious comment, and it was intended to be facetious, and I think understood by everybody as being facetious. I have discovered after that experience never to make facetious comments because they do not get printed up that way.

But the fact, obviously we are not going to double or triple the Federal deficit on the basis of requests for agricultural programs. However, it was facetious only in the sense that the magnitudes differ. The fact is we are still getting way too many demands for Federal support that simply are not meritorious. Now you and I have to deal with those, of course, both in the budget process here and in the budget process at USDA.

But I am disappointed that we have had so many. Just to give you one specific example, I was going through 1 day's mail as I flew out to do a speech here 1 month ago or thereabouts. And there were over 1 billion dollars' worth of spending requests in that 1 day's mail. So it is a major problem. Maybe those are all worthy causes, but in a time of budget austerity, we simply cannot respond positively to those kinds of requests.

Mr. GLICKMAN. Well, I would just urge you to watch your comments as I get myself in the hole periodically because folks out there need to know that you are their friend. I think you are a competent individual, but you have to make sure that you are careful in those comments.

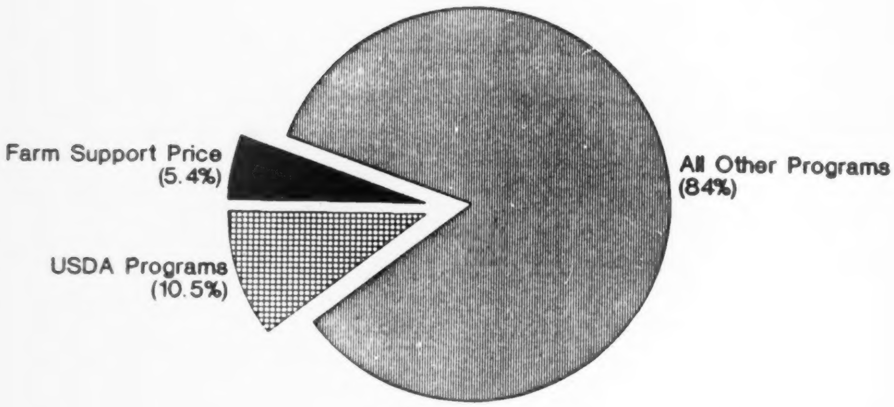
Secretary YEUTTER. Well, I appreciate that. And let me say that for what I believe are meritorious causes I will be as vigorous and strong an advocate as agriculture has ever had, I hope. But I would not wish to be a blind advocate for all causes because those causes should be meritorious. We have to distinguish, and we have to distinguish with some care at a time when budget constraints are very severe on all of us.

The CHAIRMAN. I thank the gentleman. If the members would allow me for the record, Mr. Secretary, after one of those statements I took it upon myself to check with USDA's Economic Research Service, ERS, as to the impact of direct Government program assistance to the farmers. They say that it is 9.2 percent, not 20, 30, 40, or 50 percent. USDA's Economic Research Service says that it is 9.2 percent, and that 40 percent of the direct Government payments went to farms with high debts, negative cash-flow or both. So it is not like big corporate farmers. Anyway nobody can get more than $50,000 anyway.

But your Economic Research Service says 9.2 percent, and then this leads me back again to the now famous charts that the red is the trillion dollar-plus budget. If you can see that tiny little line, that is what goes to farm support programs. This is being rerun more than "I Love Lucy" now. [Laughter.] But we cannot do it enough because people still keep saying this horrendous, tremendous amount. That little line, if you can see it, is the farm support programs. This is the total spending by Defense and Social Security. You have already spent 96 percent of the budget by the time you get to agriculture. That is us, this tiny, little red dot here. And then if, heaven forbid, but if you were to resign and the President decided just to abolish the Department of Agriculture, the green is a total trillion dollar budget, and the tiny yellow is everything agriculture, 4.3. Now probably it's below 4.

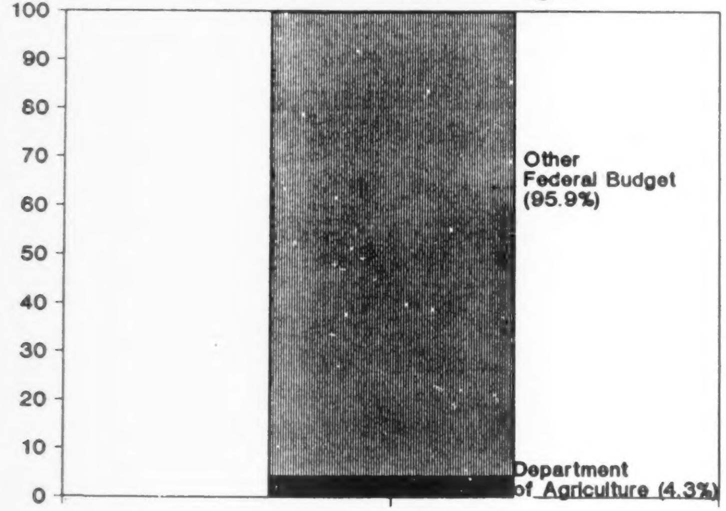
So if you were to abolish the Department of Agriculture, you have not done anything to the trillion dollar budget but reduce it by about less than 4 percent. And those are the facts from USDA figures. I thought I might put them in the record at this point.

[The charts follows:]



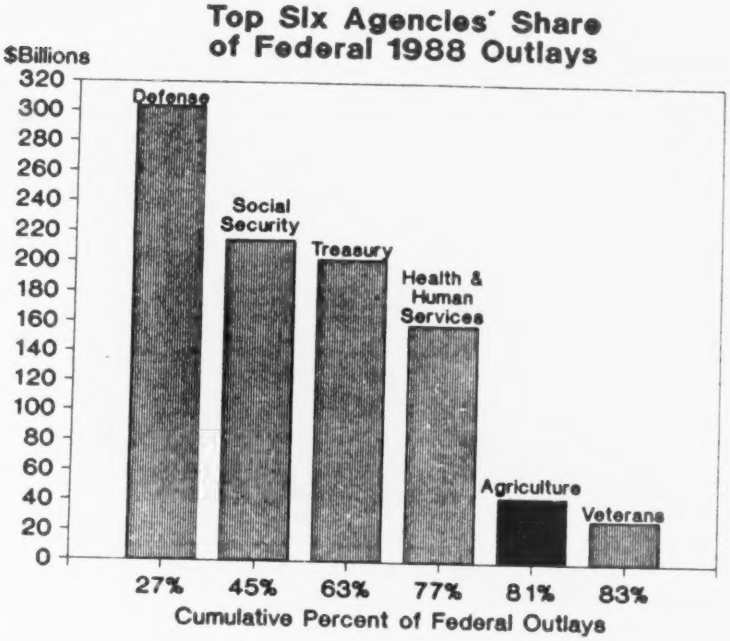
Reagan Deficit Reduction Proposals
Fiscal Year 1990

CHART 1



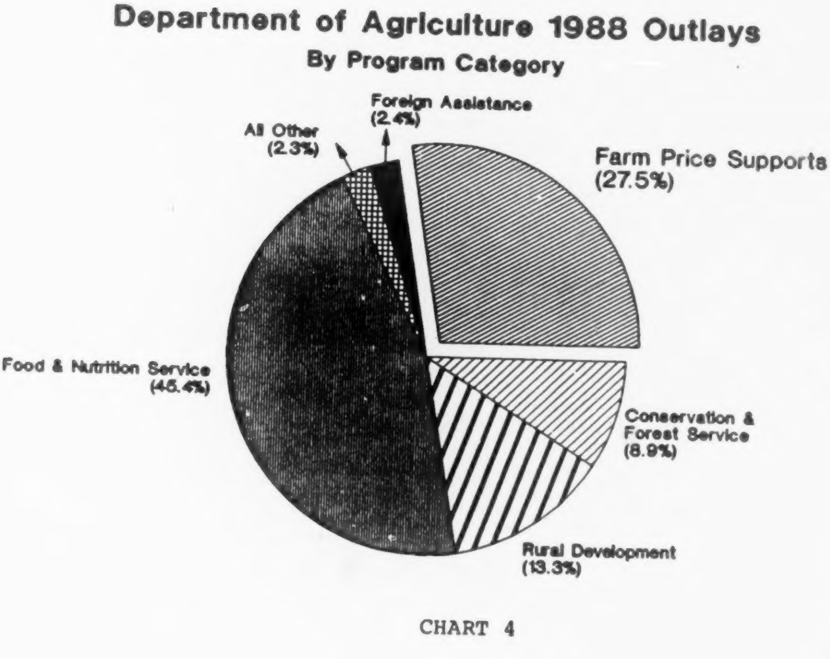
FY 1988 Agriculture Spending in the Federal Budget

CHART 2



Top Six Agencies' Share of Federal 1988 Outlays

CHART 3



Department of Agriculture 1988 Outlays
By Program Category

CHART 4

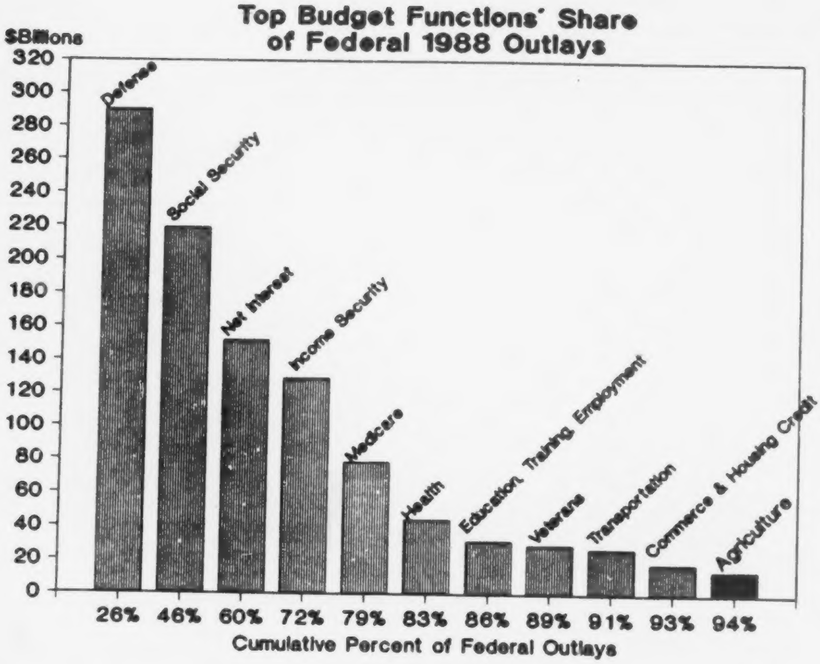


CHART 5

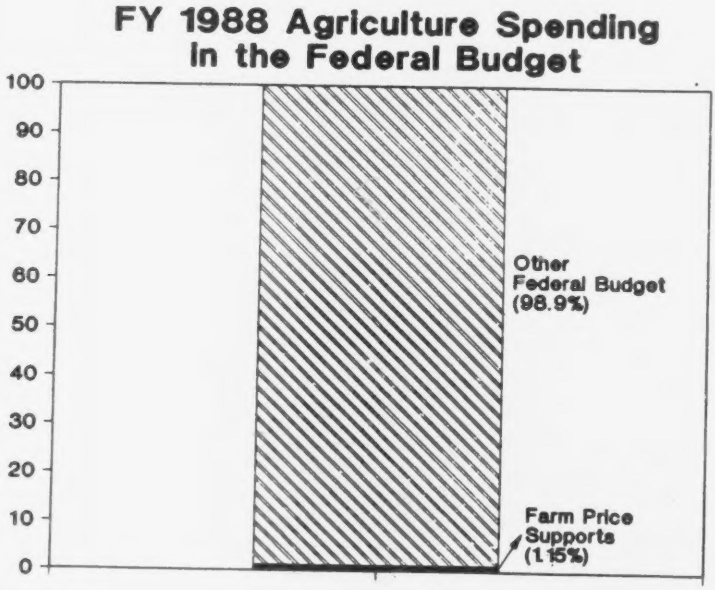


CHART 6

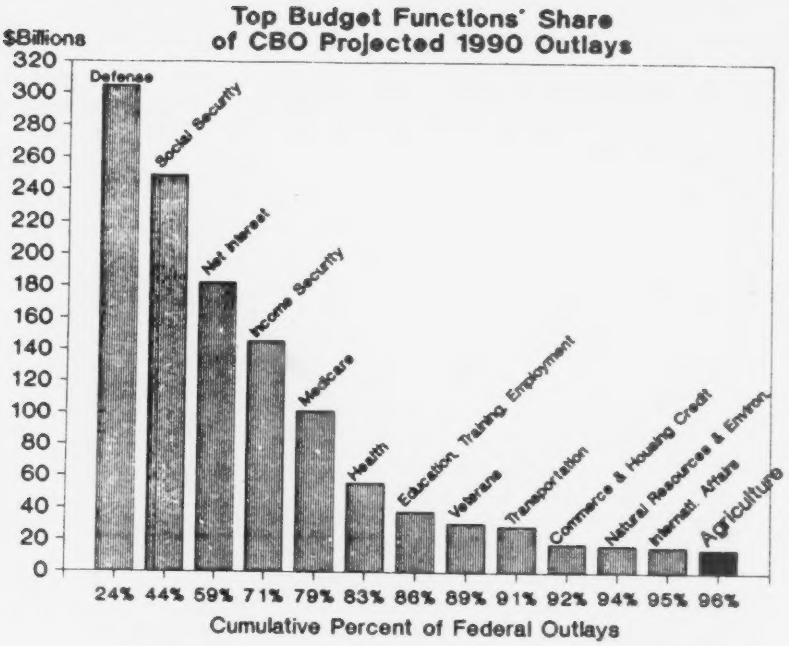


CHART 7

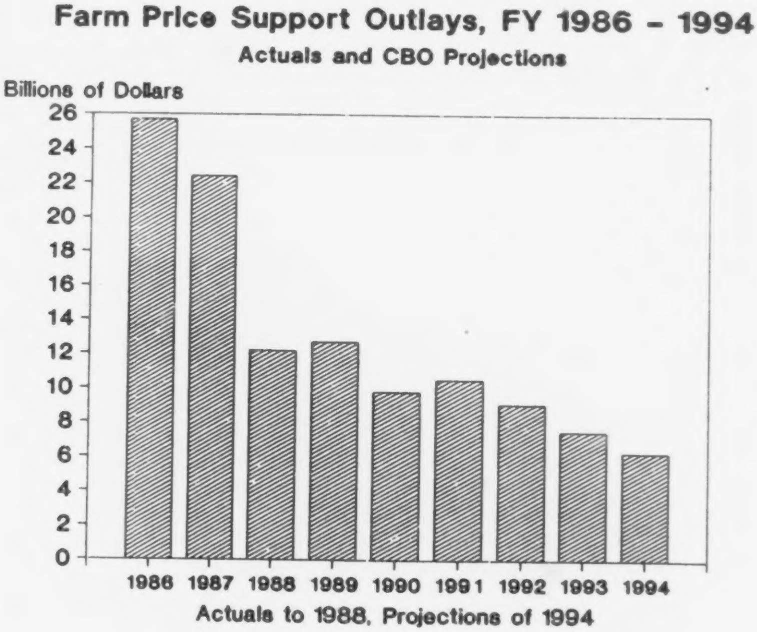


CHART 8

Secretary YEUTTER. I think that is a great idea. You might pass those on to the Budget Committees, too, Mr. Chairman.

The CHAIRMAN. We have. We have. I might add also that we have been probably the most responsible committee on the Hill in relation to budget and budget deficit reduction. We have done over $30 billion in the past 9 years. This year again we met the quota assigned to us, not without pain or trauma. It is very difficult at this point.

But we gave the Budget Committee for Reconciliation responsible cuts and also I might add that the outlays from CCC, which is what we work with, in 1987 were $22.4 billion. In 1988, it was $12.5. Estimated for 1989, around $13. And estimated for 1990 around $11. So we have pared that down. We have made our reductions. And yet, agriculture out there appears to be doing somewhat better.

Oh, we will have those who say it is not any better. But I think it is, and the majority of the people think it is. I thought this would be appropriate to submit those figures for the record at this time. We continue now with Mr. Marlenee.

Mr. MARLENEE. Thank you, Mr. Chairman. Welcome to the committee.

Secretary YEUTTER. Thank you.

Mr. MARLENEE. Let me congratulate you, Mr. Secretary, on being one of the few Secretaries of Agriculture in my memory that has not had calls for his resignation within the first 6 months of his term.

Secretary YEUTTER. Mr. Anderson came pretty close yesterday, but I hope he is not terribly influential.

Mr. MARLENEE. I hope this bodes well for the next 6 months.

Secretary YEUTTER. Thank you.

Mr. MARLENEE. As we write the farm bill, a lot of talk in this committee and around Congress is about rural initiative. Congress has been concerned and others are concerned. Organizations are concerned. There are a lot of things that affect agriculture that this committee does not necessarily have to deal with. Probably the first and foremost impact on rural communities is interest rates, as you can agree.

Then we have some things that have happened in Congress that have virtually destroyed some of the rural communities. We have the investment credit elimination. Income averaging eliminated. Capital gains which discouraged long-term investments and retooling in rural America. Service stations now and their underground tank problems. That is a small thing, but it is nonetheless employment. Now we are talking about wind or about fume control coming out of the nozzles as these service stations deliver the gas at the pumps.

We know that there is more wind in Montana, and about as much wind in Montana and North Dakota as there is in the Congress of the United States. But my point is that some of these things are not needed. Hospital overregulation, school costs driven up, all by actions taken by members of this committee with regard to what it does for the rural infrastructure, and then we are talking about what are we going to do to sustain rural America and stop the exodus of people.

It makes me a little angry. I am not against a rural initiative. But gosh sakes, this Congress has got to stop and look, the members of this committee, as to what tax laws, interest rates, regulation is doing to these rural communities. They are making it so the elderly cannot afford homes in a rural community, and now we are talking about more solid waste regulations.

Paperwork is driving farms and businesses up the wall. Some of it coming from our Department, mandated by this committee. Probably the most abusive, Mr. Secretary, the most abusive program that this committee has come up with in regard to the rural infrastructure has been the conservation reserve, the CRP. That has contributed more to the exodus of people from rural communities than any other single program that I know of.

We have a 35- or 25-percent cap on it that we were successful, I was successful in getting put on it. Then we have a 10-percent set-aside. We have somewhere between 35 and 45 percent of the volume of rural communities taken out of production, set aside in conservation reserve. That is the profit margin whether you are delivering fertilizer, fuel, or selling a farm product. With 30 to 40 percent of the gross volume destroyed, there is no way that these small businesses and main streets and infrastructure can survive, particularly coupled with the rest of the abuses that Congress has heaped on.

I would suggest, Mr. Secretary, that you look at these at the Department, not only those things that are under your immediate control, but suggestions to members in the committee and in Congress, as to these other implications and tangent impacts that are being felt by the rural community. Second, I would suggest, Mr. Secretary, that you cap the conservation reserve. I think we could save a great deal of money that could better go to the Export Enhancement Program, better go to selling products, keeping the rural communities alive, and that money could also be used for income support rather than expanding the rural conservation reserve.

The CHAIRMAN. I thank the gentleman. His time has expired. Mr. Stenholm.

Mr. STENHOLM. Thank you, Mr. Chairman.

The CHAIRMAN. I did not notice any question for the Secretary to reply.

Mr. MARLENEE. Well, an implied question, how he would feel about capping the set-aside, if he might respond?

The CHAIRMAN. I will allow the Secretary to respond.

Secretary YEUTTER. I will do it very quickly, Mr. Chairman. First of all, on the Conservation Reserve Program, Mr. Marlenee, we will be evaluating that and making recommendations to you as to how we think that ought to be handled in the 1990 farm bill. As you know, we got a little over 30 million acres in the conservation reserve right now.

The present intent is to take that up to 40 some million. It is getting increasingly costly to do that. And I say in my prepared text and testimony that if we are really going to get up to the kinds of numbers that the Congress has asked us to do, we are going to have to do some redesign of the program or we ought to alter the numbers. But we will be back to talk to you some more about that in time.

As to set-aside, I just say amen to your comments there. There is no doubt that we reduce our economic efficiency and competitiveness when we take land out of production through set-asides. Our trading partners love to see that. That is why they make a big pitch to us to either keep it out or extend the amount that is taken out. We should recognize that that is in their interest, not necessarily in our interest, and I hope we will recognize that in the future. We will have further discussion about that as the 1990 farm bill discussion unfolds, too.

Interest rates, fortunately, we have a little good news on that front with the interest rates having come down recently. We hope that trend will continue. Agriculture is an enormous beneficiary of lower interest rates, as you know. A lot of that is fiscal policy. If we do a good job of reducing the Federal budget deficit, that will help.

With respect to tax changes, Mr. Marlenee, there is no doubt that some of those tax changes have worked to the disadvantage of American agriculture. Altering them, though, however, is very difficult. As you know, your colleagues on the Ways and Means Committee and on the Senate Finance Committee are not enthusiastic about opening up that tax legislation very much, if at all.

Mr. MARLENEE. Thank you, Mr. Secretary.

The CHAIRMAN. I thank the gentleman. Mr. Stenholm.

Mr. STENHOLM. Thank you, Mr. Chairman. Mr. Secretary, I find myself in substantial agreement with much of the objectives you have stated this morning. Your willingness to work with this committee in development of the 1990 farm bill is certainly appreciated. You have also made some statements that lead me to my question that I think is one of the most fundamental questions that this committee is going to have to find the answer to. What is the baseline that we are going to have to work with in developing the 1990 farm bill? Now it seems to me that we have to have a reasonable baseline that we can work with as a committee. Can you give this committee a range of a baseline that you believe will be one that will be adequate for us to develop policies to maintain our competitiveness and maintain a strong negotiating position in Geneva?

Secretary YEUTTER. Not yet, Mr. Stenholm, but obviously we have already done some thinking about that, and we will do more in the coming weeks and months. It is a very difficult issue to handle because of the timeframes that are involved. The fact is that we must discuss and pass a farm bill next year before those negotiations conclude. So we have to formulate this next piece of farm legislation in such a way as to facilitate and foster that negotiating process while at the same time generating confidence in our agricultural community that their interests will be properly served with the Uruguay Round results being an unknown quantity at that point in time. And that is very difficult.

Mr. STENHOLM. I guess I am trying to get a personal opinion from you.

Secretary YEUTTER. Yes.

Mr. Stenholm. Is $12 billion a year in the agricultural function of the budget too much to be spent regarding food production in this country?

Secretary Yeutter. My answer would be that will depend on circumstances at any given point in time. If it were 1986, Congressman Stenholm, as you will recall, that would not have been enough. We spent $26 billion then because we were in a very chaotic, troublesome, almost crisis situation. Under present conditions, I would say that we were in the ballpark with that kind of number.

What we will be able to afford in terms of all the national budget priorities of fiscal year 1991, I suspect that this committee and USDA will be under a lot of pressure to bring that number down because we will have a $64 billion Gramm-Rudman-Hollings target in fiscal year 1991 which is a tougher target than the one we have today. And, I suspect tax revenues will be off a bit because of the slowdown in the economy. So we are going to all be under pressures in fiscal year 1991.

As we look beyond, then it gets increasingly difficult to discern because we have to evaluate economic conditions worldwide.

Mr. Stenholm. You made a statement that I think has escaped a lot of people. With the drought, most of our stocks did not become available under our current "market-oriented policy." Now that indicates to me that if we are going to cut the amount of safety net under our farmers, that is not going to lend itself to needed rural development.

Secretary Yeutter. Well, the amount of safety net, Congressman Stenholm, as you know, is going to vary directly with how well we can enhance incomes from the marketplace. If we succeed in that endeavor over the next 10 to 15 years, then clearly we can afford to reduce the level of the safety net. They have to go hand in hand. That is why we will need to know with precision what will come out of the Uruguay Round.

In other words, we will need to know what is likely to happen here and in other countries in 1992, 1993, 1994, et cetera, because that is going to determine what our income potential is in that global marketplace. So, if we reduce our dependence on the American taxpayer as I hope we can, we obviously have to offset that by a concomitant increase of income earned in the marketplace, hopefully an even greater increase so that farm incomes will continue to go up. That is the trick, to manage that process, of course, both domestically and internationally. We are going to struggle with that in the 1990 farm bill and then struggle with it again in whatever legislation will be called for to implement the results of the Uruguay Round.

But I think we are on essentially the same wavelength. Whether we can estimate that with precision is another matter. This is a bit like the Federal Reserve Bank trying to conduct monetary policy. Can you fine-tune monetary policy? The question is whether we can fine-tune agricultural policy nationally and internationally, and that is a formidable challenge.

The Chairman. The time of the gentleman has expired. Mr. Stangeland.

Mr. Stangeland. Thank you, Mr. Chairman. Mr. Secretary, I too want to welcome you and Mr. Parnell and Mr. Crowder. Let me say first off that in perusing your statement, and I have not had a chance to read it, I think it is an excellent outline of a challenge that this committee faces. I want to follow up on Mr. Glickman's question just briefly and say that I hope that at some time you will send to us a more definitive suggestion as the route we ought to go and allow us to work with you on it.

Certainly we will want to do some revamping, but we also, I think, look to your leadership and your suggestions, recognizing that you are one of the eminent authorities, as far as I am concerned probably one of the best qualified Secretaries we have had in a long time. There are just a couple of points that I would like to leave with you. I could go on and on in this whole discussion, but the other members will hit some of those points that I am going to miss.

But two points that I want to make. First of all, you discuss the GATT decision on our headnote authority on sugar. And I would hope that as the negotiations go forward with Australia that you will keep us informed of what direction those negotiations are taking and in talking to Mr. Crowder with you today and Ms. Hill, both said there are numerous options for us to take in a domestic Sugar Program.

But those options are not being revealed. And at some point in time I think we would like to know what those options might be. Both have spoken of tariffs and I have advised both of them that that is sheer folly for the simple reason that tariffs come out of the Ways and Means Committee. Our Ways and Means Committee is a very strong free-trade committee, and they are just not going to give us the kind of tariff we need for that industry. So I hope that you will keep us informed and work with us as to the tenor of those negotiations with Australia.

Second, one thing I would urge you as you look to recommendations on dairy policy is to take a look at the milk marketing order structure of this country. Formulated about 50 years ago with very little revision, very little revamping, very little in any modernization, and I say that because I think that question of marketing orders has a great impact on what is happening to dairying in this country, and where it is going.

We have a freight differential there that just irritates the daylights out of myself and my colleague, Mr. Gunderson, and our dairy farmers. We do not get a freight differential for wheat out of Hallack to New Orleans over and above the wheat produced in Texas, for instance, and a lot more freight for that wheat. I do not see a need for a freight differential.

And we were told for years that California was strictly a fluid producer and fluid market. They are building cheese plants in California. We were told that Texas needs a freight differential to encourage dairy production down there and we see cheese plants going up in Texas. They are not only producing for a fluid market any longer. I would expect that there are probably cheese plants in Florida and today we can move fluid milk those distances and provide and compete in the fluid market. But the marketing orders, I think, are preempting the ability of our dairy farmers to stay in business, the traditional dairy producing area of Minnesota, Wisconsin, the upper Midwest and probably even New York and Vermont as well.

It is one portion of the Dairy Program that I would like to have us take a good hard look at now. It is time to revamp or restructure those marketing orders. With that, I have no real questions except I urge you to bring forward at some point in time—certainly they are going to be shot at—we know that—as far as where we ought to go with agriculture. I think the consensus is pretty much that this farm bill is working. It is working well, and with some minor revisions, some encouragement to allow farmers more flexibility within the system will have to be done.

And I think as far as allowing farmers to start to produce on that set-aside acres and getting some meaningful agreements in GATT, I would also urge you to take a look at a marketing loan. If you want the farmers to produce 100 percent, take a look at a marketing loan. If you want to get the attention of the EEC, implement a marketing loan, and you will get their attention real quick. Thank you.

The CHAIRMAN. I thank the gentleman. Mr. Olin.

Mr. OLIN. Thank you, Mr. Chairman. Mr. Secretary, I want to proceed somewhat along the line that Charlie Stenholm, and it relates—I am going to deal mainly with the question of the international opportunity. You have said that you think the next 18 months are going to change the face of the world to some extent, at least in that regard. And that we should be targeting ourselves in American agriculture toward a much more solid commitment to the international market.

I think I would like to have you comment additionally on how you see the governmental activity in that respect unfold with respect to the various aspects of being in the foreign market, and as you know probably as well as I do that from experience that in the farm market like other markets you really have to understand the market and the competitors and what their strength and so on are. As Charlie said, you have to have a very good fix on what your resources are.

Otherwise, you can go so far, and you find out you cannot support the activity, and instead of having a stability and an opportunity for farmers, you end up giving them a problem if you cannot support what you started. And of course, you have to know how you are going to get paid, as you well know. You also know that you are not going to be able to put your products, as good as they are, in the backyard of a competitor that is very good at making the same product, and you have got to be careful of the target.

So could you comment a little bit more on the support level of governmental activity that you visualize both in terms of financing, information, knowledge, et cetera, and subsidies?

Secretary YEUTTER. I sure would, Mr. Olin. The Government does have a role in this regard, not just the Federal Government but State governments as well, as I indicated from my conversation with those western Governors. One of the things we talked about there was how one can do a better job of helping small firms get in the international market. The Government does not have to do a lot for the big guys because they can pretty much take care of themselves.

They too may have difficulties if they have to compete with the treasuries of other Nations and things like export subsidies. But putting that aside and just concentrating more on the marketing challenge, it is the smaller and medium-sized firms that have the difficulty in determining where a marketing niche is that they can fill, how to go about filling it, how to get the necessary credit. This is a major educational task.

And I think we can help through our Foreign Agricultural Service. We can help through credit programs.

Mr. OLIN. If I can interrupt you.

Secretary YEUTTER. Sure.

Mr. OLIN. I wanted to get at the major elements, and of course, in the program that you have been supporting so far, the major element is export enhancement of one type of another.

Secretary YEUTTER. Yes.

Mr. OLIN. Marketing loans or some kind of a financial subsidy which in quotes "makes America competitive."

Secretary YEUTTER. The Export Enhancement Program is very significant right now, Mr. Chairman, because——

Mr. OLIN. Have you got a fix as to how much we are going to have to put into that to get about how much market penetration in the international market?

Secretary YEUTTER. It depends entirely on what other people do, of course, and that depends so much on what happens in the negotiations. If we can reach an agreement in the negotiations that will call for a phasing-out of all export subsidies, it will make life a lot easier for folks who are competitive exporting wise. I do not have——

Mr. OLIN. It will make it easier or tougher.

Secretary YEUTTER. Pardon?

Mr. OLIN. It might make it tougher if you have to compete without subsidy, then you really have to be right down there in their cost.

Secretary YEUTTER. Well, then you have to be competitive, of course. Oh, yes. And my judgment is we are.

Mr. OLIN. And you have got to be able to trust the other guy that he is doing what he said he was going to do, which is quite questionable.

Secretary YEUTTER. Well, we should be able to monitor that. That is not at all impossible. But if we can have a phase-out over a period of 10 or 15 years of the export subsidies of the world agriculture, then we would have a trading environment that is permeated much more by inherent competitiveness than today, and we ought to do very well in that regard.

Mr. OLIN. Well, I would hope that you could come back to us with much more meat on the bones of this subject while we are considering the 1990 farm bill. I do not really believe that by 1991 we will have a revolution that we are going to want to rewrite that bill. I think it is going to take longer to do that, but I think we have to have a much better understanding of what you consider the opportunity to be, and how much resources you think it makes sense to put into it and not, we cannot in this sense really deal in generalities and get too far.

Secretary YEUTTER. No. Well, that is why I said to Mr. Stenholm earlier that we have to have a definitive program for all the major nations for what is going to happen in 1992, 1993, 1994, and 1995. That will provide those answers, Mr. Olin, and of course, we have to do that in the negotiating process.

Now as to what this does legislatively in 1991, clearly if we reach an agreement, the world reaches an agreement in Geneva at the end of 1990, all nations will take that agreement back for approval by their governments in 1991. But whatever is agreed is not something that is going to occur overnight.

This is where our sugar folks were concerned that the GATT decision on sugar was going to go into effect instantaneously. The fact is that all of these things take place over a period of time, and what we will likely have in Geneva is something that would be implemented over a period of 10 or 15 years.

Mr. OLIN. And the 1990 farm bill would only be the early part of that period and pretty good chance no big revolution during that period.

Secretary YEUTTER. That is correct.

Mr. OLIN. But some movement.

Secretary YEUTTER. That is correct.

Mr. OLIN. I think that is a realistic position. Thank you, Mr. Chairman.

The CHAIRMAN. I thank the gentleman. Mr. Secretary, I might mention in relation to sugar that when Prime Minister Hawke of Australia was here, I had the opportunity to visit with him, and since that time I have visited with their ambassador. My suggestion to them was a very popular American refrain, "cool it." You have made your case and now let us just wait to see what happens with GATT, and it probably would be well if the administration and you would follow the same procedure. We have to help our own cause first.

I remember President Bush came back from a very successful trip, Poland, Hungary, and we commend him. We are terribly proud of what he did, and how he did it with one exception. In the days of Lyndon Johnson, he traveled around the world several times handing out little pencils with his name on them that cost 19 cents. President Bush hit Poland and he promised $100 million and Hungary, another $25 million. I should go back to the days of Lyndon Johnson handing out pencils with his name on them that you can get for 19 cents. [Laughter.]

We have to begin at home. Mr. Gunderson.

Mr. GUNDERSON. Thank you, Mr. Chairman. Mr. Secretary, welcome back.

Secretary YEUTTER. Thank you.

Mr. GUNDERSON. Let me join with those who are commending you. I particularly appreciate your efforts over these first 6 months to try to put a futuristic look on all of agriculture, and hope that includes not only recognition of the international economy but the need to modernize.

As we talk international, can you give us an update on the potential butter sale to the Soviets and where that stands?

Secretary YEUTTER. Secretary Crowder has been immersed in that. I will ask him to say whatever he feels he can say at the moment without causing confidence problems.

Secretary CROWDER. Sure. We had a team that met with the Soviets the week before last. Significant progress was made, particularly in terms of contract, timing, and so forth. The issue, the primary issue outstanding now is price. They will be sending a team of veterinarians here to look at the product and conditions and so forth. The next meeting has not been scheduled, but we expect it to be scheduled sometime in the near future. So, I would think that things are really on schedule there and we are pleased with where we stand right now.

Mr. GUNDERSON. You want to give us any broad timetable?

Secretary CROWDER. A broad timeframe? No, I do not think that I want to do that now, but I would say it is a matter of days and weeks in terms of getting back together. You know that you never know when you go into a negotiation exactly how long the price discovery process is going to take place, but we are, I think, close enough that it is optimistic as far as I am concerned. I do not think there is any great big difference in it right now but it will not be known until the deal is done.

Mr. GUNDERSON. Would it be fair to say that there will be a sale. The question is how much?

Secretary CROWDER. I think it is premature to comment on how much might be done. That could be a function of price and quantity and this type of thing.

Mr. GUNDERSON. I guess I have to learn from the reporters how to ask these questions better. Let me focus on an issue that is a very immediate issue even for this year, and that is that really the one big problem with the Dairy Program today is the amount of butter we are purchasing, and that focuses in direct area on the milk equivalent. Because when you calculate milk equivalency for the trigger, butter distorts that significantly.

Are you willing, Mr. Secretary, to look at perhaps some alternative as a way of more honestly and accurately calculating the milk equivalency knowing full well that we still got to do something on that butter side to keep correcting the distortion that exists?

Secretary YEUTTER. I am open-minded in that whole arena, Congressman Gunderson. I do not want to mislead you by saying that I am convinced we ought to change, but I am certainly amenable to looking at alternatives. I began to do a good bit of reading on dairy in the last couple of weeks as I have had a chance to do on airplanes. I cannot do it around here when I am doing 15 meetings a day.

But I decided it was imperative to get up to speed. As you know, I had the market orders under my jurisdiction 15 years ago when I was in the Department, but I have lost track of all of this in the interim. And I am becoming increasingly convinced that we have some legitimate dairy issues confronting us today. You have raised some of those. I have read your materials by the way.

Mr. GUNDERSON. Thank you.

Secretary YEUTTER. And they were very well done, but I have been reading some other things, too, and more today than 3 or 4 months ago, I am convinced that we need to take a look at a number of issues in the dairy area including that one.

Mr. GUNDERSON. It would be helpful—I understand your answer to Mr. Glickman earlier on the question of timing of a proposal. Do you anticipate that you will come up here with one broad proposal, or do you anticipate segmented proposals regarding the different commodities?

Secretary YEUTTER. I am not sure yet, Congressman Gunderson. But I could see us putting together an overall package that we would submit to the Congress or I could see us coming up with something more informal than that, laying out what we believe the parameters of the 1990 farm bill should be and what our views are in each of these parameters.

So it is a question of whether we do it formal or informal, and I am not sure which would be the most helpful, but either way we will try to articulate where we believe the committee and the administration should go together in 1990.

Mr. GUNDERSON. Thank you. Thank you, Mr. Chairman.

The CHAIRMAN. I thank the gentleman. Mr. Jontz.

Mr. JONTZ. Thank you, Mr. Chairman. Welcome, Mr. Secretary.

Secretary YEUTTER. Thank you.

Mr. JONTZ. I think most of my colleagues on the committee would agree with me that one meritorious cause that we ought to be focusing some attention on is profitability of the family farmer, and I do wish sometimes I heard a little more from the Department on that subject. What I wanted to ask you today is this: One of the factors which is influencing the profitability of the family farm at the present time is increased cost of production.

In the period from 1985 through 1988 when the 1985 farm bill was taking effect, the costs of production were going down. Now the costs of production are going up. Land, chemicals, seed, everything is going up. How will your proposals that you bring to this committee later this year reflect the increase in cost of production to the family farmer?

Secretary YEUTTER. Well, we cannot base our farm policy structure simply on cost, as you understand very well, Congressman Jontz. We are in an international marketplace, and we have to be able to compete in that marketplace.

So, it is not just a question of overall costs. It is a question of what our costs are per unit of production. In other words, can we find a way to produce more efficiently to offset any unit costs of fertilizer, whatever it may happen to be.

I have often felt, and I will philosophize a little bit about this, we should be spending more of our research dollars on cost of production issues. That is on finding ways to reduce our per unit cost of production, making sure that we are inherently competitive internationally, and less of our research dollars on boosting yields. So, part of it is determining ways to offset those costs when they occur so that our sale price internationally can still be as low as it was earlier, and we can still sustain our competitiveness, particularly if other people's costs are not going up when ours are doing so.

So all of that has to fit into the picture. Now the additional and broader question that you ask is assuming our costs do go up and included in that would be per unit cost. In other words, if we have to sell at a little higher price, can we get a higher price out of the world market, or can we continue to boost exports? I think that if we do the right job internationally, we can absorb some of those cost increases and still sell more internationally than we are selling today and generate more income out of the international marketplace than we do today. That is the challenge really.

Now if you are saying should we offset it by changing our safety net here, the question is whether we can afford to increase the cost of our safety net. The other question is whether we really need it or can we get the additional income and the additional sales from the marketplace without adjusting our safety net? Clearly, with the budgetary pressures that you are going to be under and that I am going to be under, if we can get it out to the international marketplace without having to boost our safety net here that is a much better alternative.

Mr. JONTZ. Well, let me ask a related question if I could. On previous occasions you and other representatives of your department have come before us, and I have asked whether any study has been made of the impact of various proposals or various existing programs on net farm income, and more often than not, the answer I get is, well, no, that is something we are studying, or that is something we are looking at.

Will you bring some proposals or when you bring proposals to this committee later, triple base, other program flexibility, expanded EEP, marketing loans, what have you, can you also bring us some studies on impact on net farm income? Because it seems to me that we need that information to weigh how the dollars that we have to spend, whatever that may be, can be spent most effectively? Will you bring us those studies so that we can assess the impact of various proposals on net farm income?

Secretary YEUTTER. I want to ask Secretary Crowder to comment on that, but let me give a preliminary comment. I certainly hope so because that is a legitimate question, and obviously both the committee and USDA need to go through that analysis in terms of getting the most bang for the buck.

But I would like Secretary Crowder to comment specifically because he is chairing the committee.

The CHAIRMAN. The time of the gentleman has expired. Without objection, we will continue further reply of Secretary Crowder.

Mr. CROWDER. The approach that we are taking with respect to developing the farm bill is a commodity task force approach in which we are looking at commodity specific programs in the context of the macro objectives, and as part of the analysis that we are doing for each commodity. We have members from the Foreign Agricultural Service, from ASCS, and from the economic analysis staff so that we can incorporate domestic considerations, the foreign potential, and market impacts as well as what would happen to the cost and income side on a domestic basis. So, we should be able to provide that information when we come forward. I think it is appropriate.

Mr. JONTZ. Thank you very much. I thank the chairman.

The CHAIRMAN. I thank the gentleman. We now proceed to Mr. Grandy.

Mr. GRANDY. Thank you, Mr. Chairman. Mr. Secretary, welcome.

Secretary **Yeutter**. Thank you.

Mr. **Grandy**. I want to reiterate at least a term used by my colleague from Indiana, Mr. Jontz, and talk about a meritorious effort that I believe you and I are in disagreement on right now and that is the pending House drought bill.

Let me just apprise you of the fact that the Governor of Iowa and the Secretary of Agriculture are now concurring with the House that this is a piece of legislation that a State like Iowa, a corn and bean State, but particularly a livestock State, which did not really benefit as thoroughly from the feed assistance provisions in the last drought bill as did the people who got crop assistance.

But my point is this, Mr. Secretary, when we began to craft this bill and your deputies were up here, we provided in this committee a mechanism by which we could retain the revenue neutrality of this bill. We have tried in our budget reconciliations to go as far as we could up to and even including tearing down farm income to meet our targets.

I think we have done that. It is frustrating to me to have the full faith and support of the Department up to but not including the endorsement of this bill. And I can tell you although we got some rain in Iowa, if that is followed by dry winds, this problem continues. And this is very similar to what happened last year. I still do not understand why it is a bad move, why it is fiscally imprudent to have a mechanism ready which will not spend any more than we save, waiting when and if we need it.

I would like you to comment on that first meritorious effort.

Secretary **Yeutter**. I would be happy to do so. And in fact, Mr. Grandy, your amendment to the House bill was a most prudent and responsible one, and we are grateful that you added it because without——

Mr. **Grandy**. How grateful, Mr. Secretary. [Laughter.]

Secretary **Yeutter**. Well, we are very grateful. Without it, it would have been a totally open question of cost. But our concern with respect to your particular amendment, and this gets into technical aspects which I do not fully comprehend, is that there are apparently some loopholes there that might make that constraint something less than firm. And that is a concern. Now that may be able to be changed in conference when we get there, but we are also trying to deal with that issue on the Senate side, and as you know we are in the middle of discussions on drought disaster legislation on the Senate side right now.

What I can say to you is that what we are worried about obviously is the price tag and being able to afford it under the Gramm-Rudman-Hollings' constraints. And we have had to try to get an up-to-date estimate on just how much would be available in "savings," if you will in deficiency payments, and we shared those numbers yesterday with the Senate because we are in those discussions with them now.

And it looks like they amount to somewhere between $800 and $900 million. In other words, that is the amount of money we have available for this year's drought disaster bill. Our present estimates indicate the House bill, as it is presently constituted, would have a price tag of mandatory cost, if we use the 1988 mechanisms, of somewhere between $1.3 billion and $1.4 billion. So we are about

$500 million over, and we had to do the necessary trim back in accordance with the amount of money that we have and in accordance with the intent of your amendment.

So that is really the challenge that is there. How do you get from a $1.3 billion or $1.4 billion down to the $800- or $900-million range?

Mr. GRANDY. Well, as long as I hear you say that my confidence is restored. What we have been hearing out in farm country is this a veto flag; that this is something that you have drawn a line in the dirt on. And I encourage you not to take that position because it results, I think, in some unnecessary press at a time when I think that we are in, I assume, agreed on the intent but not necessarily on method.

Secretary YEUTTER. Yes.

Mr. GRANDY. So I trust what I am hearing from you, Mr. Secretary, is that you are willing to work with us on the package that this committee passed unanimously through the House a couple of weeks ago.

Secretary YEUTTER. Yes. I do not think we are all that far apart. The difficulty with the very broad package that you passed is that to meet the budget targets, we will have to have a substantial dilution on a per farmer or per incident basis. There may be some other ways to avoid some of that and still fit within the budgetary constraints and we are trying to work on some of those with the Senate right now.

But you will hear more on that in the next couple of days probably.

Mr. GRANDY. Thank you, Mr. Secretary.

The CHAIRMAN. I thank the gentleman. Judge Harris of Alabama.

Mr. HARRIS. Thank you, Mr. Chairman, and welcome, Mr. Secretary. It has been mentioned at least once, and I want to reiterate the importance, at least in our part of the country, and we do have regional concerns, is the decay of rural Alabama, rural America, and we just hope in your suggestions and in your presentation as far as the 1990 bill or other bills that we have, that you have some innovative and far-reaching proposals that can help this committee in trying to wade through the problems and try to do something that would help our rural countryside.

I represent a rural area. I was certainly heartened to hear your comment when you mentioned the western Governors meeting where you told us that there was not one word of partisanship there at the conference. And that that is precisely the way we should operate. I certainly agree with you, and I could not agree with you more, and it was one reason I was so surprised when I picked up a newspaper in Nashville, Tennessee, and read a comment attributed to you, that you blamed Congress for the deficit, and "There is no evidence of discipline coming from that institution."

And if I understand what was just said that in 1986 that the farm support payments were $26 billion, and in 1990 they are $12 billion. Mr. Chairman, you might make a chart on that to show that as it comes down.

The CHAIRMAN. I think I will add another page to my famous chart.

Mr. HARRIS. And Mr. Secretary, I will just have to say that frankly I was very disappointed in that comment, and I think that in our ability to work together and be bipartisan as we have to be with all the problems we have, that institution bashing does not help the situation. If you would like to comment on that, I would certainly be welcome to hear you.

Secretary YEUTTER. I appreciate your comment, Mr. Harris. Obviously, we are achieving some disciplines as a result of a lot of very difficult negotiations between the administration, the executive branch, and the legislative branch of Government. It has not come easily at any time over the last several years. I would like to see greater evidence of discipline coming in that process, not just in budget negotiations, but as individual proposals for spending arise.

I think the principal reference of that comment was much more to individual proposals that come across people's desks than it was to the more formal process. I would like to see some letters coming across my desk from time to time where Members of Congress would say to a constituent or to someone who submits a proposal that it is a very meritorious proposal, but we just cannot afford to do it.

Those proposals seem to come my direction, and then I have to write them back and say that they are meritorious proposals, they are worthwhile proposals, but we just cannot afford to do them. And that is OK. I am willing to do that. That is what we get paid to do as a public servant, but there are times when I would appreciate some help from the other side of town in pointing that out to folks.

I do not think I have a letter yet from a Member of Congress where that statement was made. But we will deal with those problems as we go along. As to rural America, Mr. Harris, I do not have a lot to add to my earlier comments on the subject of rural development, but I will say again that it seems to me that ought to be a very high priority for this committee and for the Department.

We sometimes define our role out there too narrowly, and I think we should broaden that role. I do not know the answers to how we do a better job in rural Alabama or any part of the country, but we need to search for those. As you know, we have had an internal committee within USDA working on that recently. That committee made its report last week. Copies should have been forwarded to you and other members of the committee yesterday.

We have another interagency committee working under the Economic Policy Council which involves other agencies of Government outside of USDA working on this. That committee will come forward to us with some recommendations sometime in the next few weeks. I hope that we will learn something from all of that that we can share with you all in the development of legislation next year.

The CHAIRMAN. I thank the gentleman. Mr. Secretary, I might mention also that things keep coming up, but this committee has been very responsible, and we have accepted the discipline. You know, I was thinking of things you do not say do not come back and haunt you. We remember those. But I have gone throughout the width and breadth of this country, stating we have been responsible, what we have reduced, how we have reduced it, and just the other day with the reconciliation, the ad hoc group, and the whole committee. It was painful where we had to go.

We are beyond the bone. We are into the marrow, and the members said, "Do not hit corn or do not hit wheat," and we got provincial. We never got partisan, but eventually we said for the good of the whole, let us go and corn gave and wheat gave and soybeans gave and everyone gave. I know that sometimes questions pop up at press conferences and so on. But my only request is that you distinguish in the Congress that it "ain't" this body. That this committee is responsible. Beyond that, you can say what you please. But this body has been very responsible.

We may miss some of the members as they go and vote. I am going to continue and catch members as they are here, and then Mr. Stenholm will come and replace me while I vote. So next we have, Mr. Lewis.

Mr. LEWIS. Thank you, Mr. Chairman.

The CHAIRMAN. You have 10 minutes before the vote expires so you probably can go with your questions at this time.

Mr. LEWIS. Thank you, Mr. Chairman. Good to see you, Mr. Secretary, and again, congratulations on a good 6 months work. In your testimony you stated that you would discourage production controls, which you feel undermine the competitive nature of international farm programs. Do you feel that this would tie our hands as far as options are concerned? If we were to follow your lead, I believe we would be throwing away a very important card in our hand of options.

You are asking us to play a card I do not believe we need to play at this point in time in our negotiations. What are your thoughts on this?

Secretary YEUTTER. That is a good question, Mr. Lewis, because we will undoubtedly want to preserve that option in the system somewhere, somehow. In other words, I think it is unlikely that we would want to take it out of farm policy structure entirely because we may want to use it at a particular point in time for reasons that we might not now anticipate. So do not consider that to be a definitive position on our part, nor should you consider it to be a probable part of our package.

We would probably keep it in the package, but what I would like to communicate to the members of the committee is the view that we are not likely to use unless there is a very persuasive reason to do so for the reasons that I have outlined earlier. In other words, because that increases per unit cost of production, makes us less competitive internationally, and takes land out of usage, which cuts back on the business that smalltown firms can do with farmers and results in a contraction of economic activity in farm areas.

So we believe that there would have to be some very persuasive circumstances under which one would expand the use of set-aside acres, and whether we contract or not, not only is it a question that has economic dimensions domestically, but it also has some negotiating dimensions too.

In other words, we might want to keep that arrow in the quiver from a negotiating standpoint for a variety of different reasons.

Mr. LEWIS. Thank you, Mr. Secretary. Thank you, Mr. Chairman.

Mr. STENHOLM [acting chairman]. Mr. Espy.

Mr. ESPY. Thank you, Mr. Chairman, and welcome again. Thank you for appearing once again, Mr. Secretary. A lot of members have asked you questions about programs and I will just in the limited time I have talk about another area, but suffice it to say that I agree with you on the thrust of your statement on programs.

We passed out of this committee last week a canola bill that talked about flexibility and increasing flexibility in giving the producers some program options so they can grow nonprogram crops without any loss of their base. I think it is a great idea, and we ought to continue it in the next farm bill. But let me spend my time in another area. You exercise an immense, mammoth Department with a multitude of programs and it is a massive bureaucracy, and you know, you are the guy at the top, and I know that it is hard to put your hand on everything.

But out in the country there is a feeling that the housing function of Farmers Home and the ability to get to things like rural water system proposals and sewer system proposals are treated pretty much in a stepchild mode or perhaps even more as an orphan. These things are never gotten to, and not to say that the program function is not important. It surely is. But you know, it really is a problem. And for example, in the district that I am proud to represent this weekend will announce a Farmers Home grant and a loan to a rural water system that allowed them to hook into an existing system.

But it took them 14 years, Mr. Secretary, to get to it, 14 years. And these people have been without water, some of the more affluent ones, relatively speaking, have wells, and some have systems, but the overall majority, black and white, of those who live in this 60-family community did not have water at all, ever. And have tried for 14 years to wave a flag to the Farmers Home Administration to get them to get some attention turned their way.

Certainly that is not an indictment of you. Certainly it is not an indictment of Republicans because this started under a gentleman named Carter in his administration. But it is just to say that people feel that in this massive bureaucracy that programs related to water systems and sewer systems and housing really are not given due attention, and frankly it has given rise to an attitude among members of this committee and other members outside of the committee, but who manage areas in rural America that we ought to strip, we ought to elevate the rural development function and call it USDA and Rural Programs, or we ought to take it away completely and put it in the Commerce Department or some such other agency that already exists or even to create a sub-Cabinet function.

So I am asking you in your effort to reorganize USDA have you given some thought to elevating, enhancing the focus upon these kinds of things and if you have, what plans do you have to do that?

Secretary YEUTTER. A very good question, and it is one that we have worked on some as a matter of fact in the last few months with respect to rural development generally, not just with respect to water grants. I am amazed at the interest in water systems. That has come as a surprise to me that it has emerged not only in your State but in a number of other States, and I am beginning to wonder why that has not had a higher priority, budget priority, in the past.

I do not know what the explanation is, but we will certainly do some reassessment of priorities on comments like yours. I will pass that on to Under Secretary Vautour, the fact that it took 14 years to get to this particular project in Mississippi. It may be that within Farmers Home we ought to be putting a higher priority on those kinds of programs and maybe a lower priority on some of the other lending that we do.

As to whether we can generate additional funds nationally, obviously that gets difficult. That is not easy in the context of the budgetary priorities and constraints that we all have. But within those constraints maybe we can do some reassessment of priorities. As to how we elevate that and deal more responsively, it seems to me that there are a couple dimensions of that. One is a question of communicating effectively between county and State offices and our folks here in Washington, DC. And my judgment is that we need to continue to work on that communications challenge, including the people relationships that are involved. That is how closely our folks here in Washington stay in touch with their counterparts down in the State capitals or in local areas.

And second, how good is our communication system? That is how quickly we can transmit communications back and forth. It ought to be almost instantaneous. In other words, we should be able to have a system that would permit that State Farmers Home Administrator in the South to communicate by minutes with fax machines, various kinds of telecommunications equipment, and we ought to have feedback and interchanges going constantly. That applies to ASCS, Farmers Home, Soil Conservation Service, and others. We need to work on that.

As to elevating rural development within the Department, that was one of the recommendations of the internal task force that just reported a few days ago. That can be done in a variety of ways. Their recommendation was that we put a high level career civil servant in a major position of responsibility in this area so that there is some continuity. I suspect we need not only the high level civil servant, but also a higher level political appointee to devote more time and attention as well.

Mr. ESPY. Mr. Secretary, if you will indulge me, would you be categorically against changing the name? I know people ask what is in a name, and that is the truth, but, you know, there needs to be some focus, USDA and Rural Development with it. Would it mean anything?

Secretary YEUTTER. I would be open-minded on the issue, Mr. Espy. I suspect that would be a highly controversial issue just because of all the past history and tradition that is involved with USDA—U.S. Department of Agriculture. But times change, and if it seems appropriate at some point in time to change the designation or the portfolio of the Department, so be it.

Mr. ESPY. Well, regardless of what name, if we could just focus on it a little bit more, and what really does not change is the level of care and the level of caring among the career civil servants or whomever you choose to put there. Thank you, sir, for coming.

Secretary YEUTTER. That is true.

Mr. **Espy**. I really do appreciate your responses.

Secretary **Yeutter**. You are right about the caring. And it is important that we care, and we will try to communicate that tone through the system.

Mr. **Stenholm**. Mr. Hopkins.

Mr. **Hopkins**. Thank you, Mr. Chairman. Mr. Secretary, welcome again before our committee.

Secretary **Yeutter**. Thank you.

Mr. **Hopkins**. You mentioned several things, Mr. Yeutter, in your opening statement with which I agree. I would like to give you an opportunity to perhaps expand on some of these matters. One being clean air. Everybody wants clean air. Nobody wants to pay for it. It is really that simple.

Secretary **Yeutter**. Yes.

Mr. **Hopkins**. You also mentioned that American agriculture should prepare to compete internationally. I could not agree with you more. I have just returned from Europe on a acquisition reform program for the Department of Defense. And I can tell you, as you already know, that Europe 92 is serious as a heart attack. They are circling the wagons in the Europe Economic Community, and we are not included in that loop.

And I agree with you that we need to start preparing for that right now. Now you also mentioned technology, and it would cost, I believe you said some $500 million for us to be up to speed or perhaps the state-of-the-art technology in the Department of Agriculture in our country. If we can do that, Mr. Yeutter, for $500 million, I am here to tell you as one Member of Congress, I think that is one of the greatest investments that this country can make.

Then you said, and correctly so: But where do we get the money? I think I know where that money is. I think I can help you find that money, and I am willing to do it. In order to establish a little bit of credibility perhaps with what I am saying let me relate to you this brief story. I serve on the Armed Services Committee, Mr. Yeutter. I am the ranking member on the Investigation Subcommittee, and several years ago the chairman of the committee came to me and asked me if I would take the time to be what we call read-in to our black world, our special access programs.

To my knowledge, I am probably the only Member of Congress on the House side that has been read-in to every one of our special access programs that we currently have. It took about 3 years to do that. Now I tell you this story because I think I know where some money is that we can get at least $500 million for. It was not easy to spend 3 years of my life being read-into those programs. The Department of Defense bill is going to be on the floor next week.

It will involve, I think, some people not being very timid and not very bashful about selecting priorities in this country. But I can show you several areas where I believe that we could recapture $500 million from programs. I have an amendment, as an example, to do away with a program that costs $2 billion, and I do not earmark the money. So certainly out of a $42 billion program, we ought to be able to find $500 million to advance the technology of agriculture in America to the state of the art.

I would appreciate your comments on that, Mr. Secretary, along with Europe 92. I would enjoy hearing a little bit more in this area.

Secretary YEUTTER. Thank you, Mr. Hopkins. With respect to Europe 92, there is no question that Western Europe will become more internationally competitive in an enormous number of products and services as a result of that effort. It may take a few years before all of that is worked through the system and it has an effect, major effect, on international trading patterns. But it will occur. It is the right thing for Western Europe beyond a shadow of a doubt. They have fallen behind, as you know, and this is catch-up time for them, and they are determined to succeed in that effort and my judgment is that the political will exists to have that happen in Western Europe.

Agriculture is a bit on the periphery of that because as you know, the common agricultural policy has been in place for a long time already. It has been the fiber that has been holding Europe together so they will not likely change those policies a lot in the 1992 exercise. But they will in some respects. And we do have to be very alert, first, to whatever protectionist measures might potentially emerge from the 1992 exercise, and second, alert to what the competitive challenge is and will become in all areas of the economy, in the global economy.

So that is just a challenge that we must meet, and it is one about which I have been speaking for quite a number of months already. That is the first one. The second point, clean air and research funds, of course, that is a question of budgetary priorities. And we will have to have that debate internally within the administration, and I will be pleased to have any help that you can offer in that respect, Congressman Hopkins. We will have to have that same debate with the Appropriations Committees here and perhaps even with committees like this one that may have to provide some of the fundamental authority that is needed to carry out some of these programs.

But the principal point I sought to make which you have understood is that we have to think long term in this area. Our tendency in this business, both in the public and private sector, is to think short term, but if we are to take a quantum leap forward in technology and agriculture, the time to start is now. We cannot think about that in the year 2000 when we have fallen behind somebody and say: Oh, my goodness, why did we not get a research program going in 1990? The time to figure that out is in 1990, not in the year 2000. And that is why I have raised the issue.

Mr. HOPKINS. Thank you, sir, very much.

The CHAIRMAN. The time of the gentlemen has expired. The distinguished colleague from Indiana, Ms. Long, is next on the list.

Ms. LONG. Thank you, Mr. Chairman. Mr. Secretary, it is nice to have you here again.

Secretary YEUTTER. Thank you.

Ms. LONG. I would like to ask you some questions regarding Farmers Home Administration. I am reading that once again we have a number of farmers across the country who are facing foreclosure on their FmHA loans, and you mentioned the Farmers Home Administration in your statement today. Specifically, what kind of reforms do you think we are going to have to see in the Farmers Home Administration? Is it in the administration of the loans, the criteria, what specifically do you see as being needed?

Secretary **Yeutter**. It is a very good query. I am not sufficiently up to speed yet to give you as definitive answer there as I would like to. But my general impression is that we need to take a close look at a lot of dimensions of that activity. We still have an immense number of loans in default. It amounts to billions of dollars worth. A lot of those have been restructured recently as you know, and hopefully they will cash-flow and hopefully those farmers will be able to make it.

But we have a lot more of them, and they are not just farm operating loans. Many loans are in rural housing and water districts and other things where they have been in default for years. And at some point in time we need to either write them off or restructure them or do something. But it is very apparent that we have made a lot of loans in that agency through the years that have turned out to be unwise insofar as the outcome is concerned. They did not cash-flow. They did not amortize. We have defaults. In some cases there is no payment for years and years on either interest or principal.

And so the fundamental question for you and for me and for the Appropriations Committees is: Do we want Farmers Home to be a grant program or a credit program? My general impression is that agency was never intended to run a grant program. The hope has been that it would run a loan program, admittedly for higher risk borrowers, but one in which at least the payback record would be at least reasonably good. It has been disappointing.

Part of that, of course, is due to the very adverse economic circumstances earlier in the 1980's, and let us hope we do not repeat that experience again. But as we go into what will hopefully be a little more stable economic situation for agriculture, can we return it to being a credit program, admittedly one that would take higher risk loans, make higher risk loans than the commercial sector will make, or that Farm Credit System might make? But, we need to do it in such a way that the probability of those loans remaining solvent is a lot higher than what it has been in past years.

We are paying an enormous amount within the USDA budget on those loan defaults.

Ms. **Long**. Mr. Secretary, do you have county by county data on how well various counties are doing in administering the program, and do you have some model counties and some model States because it occurs to me that the program is not inherently flawed. We know, as you stated, that some of the problems have to do with problems in the farm economy in general.

But it is my understanding that in some counties the program is run very well. You have a few defaults but by and large it is a very high success rate and pay back of interest and principal. And it seems to me that if we have some model counties and some model programs across the country that those could then be used for changing the regulations on how the program should be administered. Could you address that?

Secretary **Yeutter**. I am sure that we do, Ms. Long, and I will ask Under Secretary Vautour to follow up and have some further discussion with you on that point. I am sure there is a lot of variation around the country as to how those programs are administered.

The CHAIRMAN. Time has expired. Mr. Walsh, did you have your turn?

Mr. WALSH. No, I did not.

The CHAIRMAN. The Chair recognizes you at this time.

Mr. WALSH. Thank you very much, Mr. Chairman. Welcome back, Mr. Secretary. I have been very impressed with your flexible and open-minded responses to the criticisms albeit delicate ones and the suggestions that have been made. I would just like to associate myself with the distinguished gentleman from Wisconsin, Mr. Gunderson's comments, about how the USDA calculates surpluses based on butterfat, milk equivalents of butterfat as opposed to total solids. I think that will be an important issue that we are going to have to deal with this year. We will not be able to wait till next year, and I would just urge you to continue that open-minded flexible approach.

Secretary YEUTTER. OK.

Mr. WALSH. Thank you, Mr. Chairman.

The CHAIRMAN. I thank the gentleman. Mr. Volkmer.

Mr. VOLKMER. Thank you, Mr. Chairman. Mr. Secretary, before I go into the question I have in regard to the future, I would like to talk about the present just a little bit.

Secretary YEUTTER. Sure.

Mr. VOLKMER. Because in my area of the State, and I have been touring my northern counties, it looks like again we are in for another drought to some extent. We do not yet know how bad it is going to be, but we have a lack of moisture. As I toured it, I was hit repeatedly by people who have feedlots, both cattle and hogs, because their water is out. Their ponds are dry. I have seen those ponds, and they get no assistance. I have written to you. Is there any chance at all that we may get some assistance for those farmers because that is the only operation basically they have?

Once they go under—and some are getting ready to sell out right now. There are no jobs for them in town. I do not know what is going to happen to them. I guess they will go on welfare.

Secretary YEUTTER. I will have to go back and review again the different programs that are involved in that issue. I recall it coming up earlier in other correspondence.

Mr. VOLKMER. Right.

Secretary YEUTTER. And if my memory serves me correctly, one of the programs just does not permit the lending for wells.

Mr. VOLKMER. I believe that is because you use the ACP program, the idea of the pasture and preserving those pastures.

Secretary YEUTTER. That is right.

Mr. VOLKMER. But in the drought relief bill last year under title IV we did water-related assistance, water management for rural areas, and I would like to know if you could look at that. I do not know if you have even promulgated regulations under that and finished those up, and whether or not we could utilize that, but I would like for you to look at that program under title IV, if you would.

Secretary YEUTTER. We will go back and look again. My memory says that we have not promulgated regulations there, but permit me to check it again.

Mr. **Volkmer**. Because it is life or death to these farmers. By the way, a lot of pasture up there is gone. It is dead already. And we are feeding hay earlier than even last year.

Secretary **Yeutter**. Really.

Mr. **Volkmer**. So I wanted you to know about that. And the other thing I have, I have still got a little thorn in my side, and I would like to just mention it to you again, and to others on your staff. Our hogs do not eat hay, and I had farmers ask me again because they feel that they are probably going to be eligible in the future for the Emergency Feed Program with what is going on.

And if they have 2,000 hogs and they have one 4-H cow, and they got a bunch of hay for that cow, they cannot get feed assistance for their hogs. Now we wrote the language, and I have read it again just this morning. There is no question. If you look at our hearings and the discussions during those hearings and everything, your interpretation of USDA has been erroneous, and I appreciate your correcting that. You do not count it, and it is very obvious even to the farmers out there now. Because if you have got hogs only, hay is not counted.

Secretary **Yeutter**. Yes.

Mr. **Volkmer**. But if you put one cow in there, hay is counted. Now it does not make sense.

Secretary **Yeutter**. That is one of the problems. If I may, I want to ask Secretary Crowder if he wishes to comment on that since that is under his jurisdiction. That is an issue that has come up with some frequency and it is obviously causing folks a lot of consternation.

Mr. **Volkmer**. Well, I am going to keep at it until you change it or else we rewrite it.

Mr. **Crowder**. We have looked at that several times, and you do get credit where—hay is not counted where you have hogs on it. I am not sure about the case of one cow. But one of the things that we have looked at is, and we have been looking at the administration of all of these regulations over time, is what we call a test of reasonableness. And I think that that is the test we have been applying and are willing to apply, and will go back and look at it.

But the last time I saw something come across my desk with respect to this, is that we were following the test of reasonableness in administering this. But we will take a look at it and talk with you about it further.

Mr. **Volkmer**. Mr. Chairman, could I have 1 minute to ask one question in regard to the future?

The **Chairman**. The gentleman may continue.

Mr. **Volkmer**. Because looking at your statement, Mr. Secretary, on page 5 you say as we look toward formulating new farm legislation for the 1990's, we must begin to break the link between price income supports and production. Are we talking about decoupling?

Secretary **Yeutter**. Yes, but decoupling in a very broad sense. We are really talking about giving farmers additional flexibility in a whole variety of ways. As you know, decoupling is a term that causes everyone consternation. If you say flexibility, everybody is for it. I do not really distinguish much between the two. I think they are essentially synonymous.

Mr. VOLKMER. You are not necessarily talking about Senator Boschwitz' proposal back in 1985?

Secretary YEUTTER. No, that is one way to do it, but there are a lot of other ways.

Mr. VOLKMER. Thank you. Thank you, Mr. Secretary.

The CHAIRMAN. I thank the gentleman. Mr. Sarpalius.

Mr. SARPALIUS. Thank you, Mr Chairman. Mr. Secretary, you probably already know what I am going to talk about. In your statement you talked about how we need to do something. We either need to decide in this farm bill whether or not we are going to continue to provide disaster payments or whether or not we are going to develop a good insurance program that will encourage farmers to take advantage of the insurance program.

The first part of my question is: I would like to know in your opinion what we might—could—do in developing that insurance program to make it attractive to farmers? The second thing I wanted to bring out was at our committee hearing in Amarillo, Texas, on the drought, we heard from a panel of bankers which was very interesting. Those bankers indicated that about 40 percent of all the rural banks' customers are agricultural producers.

They also indicated that if they do not get any type of drought relief that about 10 percent of those customers will go bankrupt, will have to default. About 50 percent of them will need to have major loan restruction. And obviously the drought is something that is very, very critical to my district. You mentioned in your statement here that the farm debt is finally beginning to decline. It has a ripple effect. It affects small businesses, schools, banks, and these people, every time I go home I get calls everyday. I get letters. They want help now.

I would just want to encourage you to try to do whatever you can to try to help these producers get some assistance now. I would be glad to hear your comments.

Secretary YEUTTER. Well, the probabilities are very high that we will have drought or disaster legislation this year so they will very likely get relief from legislation that emerges. As you know, we are working on that in the Senate side today, and if and when a bill is passed on the Senate side, we will have a conference with your bill, and presumably an acceptable piece of legislation will emerge although we cannot guarantee that at this time.

I do wish some of those folks had bought crop insurance. I suspect their bankers also wish they had bought crop insurance now. And they would not have some of the worries that they have today. Some will say, well, maybe I should have bought crop insurance, but it was just too high. Some will say but I could not get crop insurance on whatever it is I planted. In some cases that is going to be true, too.

The basic question here is: Can we develop a Crop Insurance Program that will have a much higher level of participation so that you do not have to read that kind of summary every year? I hope we can. But I do not know whether we can at this stage. As you know, the Commission that has been dealing with crop insurance has just finished its report. It has just been presented to us. We will have to evaluate all those recommendations now and see where that takes us. But, now with a participation rate of no more than 50 percent nationally, it is inevitable that we are going to have pleas for disaster insurance every year because others who do not buy crop insurance are going to come to you and to me and ask for help if they have a yield problem due to freeze or drought or hail or whatever the case may be.

So we need a lot higher level of participation. I am not sure how we can achieve that as long as it remains a voluntary program. One could mandate it, of course. I suppose that anybody receiving price support benefits or other benefits of farm legislation would have to purchase crop insurance, but unless we take that step it remains a voluntary program and then people make their own decisions as to whether they wish to buy it or not.

I hope that in this drought bill that we pass this year, we will tighten that up so that next year folks will either buy crop insurance, assuming it is available, or forego their possibilities of receiving disaster assistance if they deliberately choose not to buy crop insurance.

Now the further question, as you know, is: How large a subsidy do we need to build into crop insurance to achieve that kind of participation if it is voluntary? One way to get a lot of people to sign up in a voluntary program is to put a very significant subsidy in to make it more attractive. That is the trade off. The question is: How much of a subsidy we can afford with the budgetary constraints?

We will have to work through all of that together in the next few months. But since you have a direct personal interest, please stay in close touch with us. We would be glad to have your input as we try to wrestle with this issue in the next few months.

Mr. SARPALIUS. Thank you.

The CHAIRMAN. I thank the gentleman. Mr. Secretary, I might mention that when we had the 1988 drought assistance bill in the House, we, in part, mandated crop insurance for the next season, but that did not survive through the conference. But this committee, acting in a responsible way as we always do, had a provision for crop insurance. We are awaiting now the perusal of the report on the crop insurance, but I think probably the best way it can be explained is: A young man worked for crop insurance in my district, I was visiting with him about it, and he says, hey, this is tough. He says if I knock at a farm door, and I say I am from the Federal crop insurance, they tell me I already have it or they sic the dog on me. But we will take that report and take a very close look at it, and make it an economically viable insurance so that more or most, if not all, of our recipients of the commodity programs would avail themselves of it.

Secretary YEUTTER. Yes.

The CHAIRMAN. Mr. Emerson.

Mr. EMERSON. Thank you, Mr. Chairman. Mr. Secretary, it is good to see you here today. I have several technical questions that I would like to submit in writing relating to some nutrition issues and cash versus commodity letter of credit questions vis-a-vis the School Lunch Program. I would like to know whether you are tending on that, but I would not expect that you would have those answers at your fingertips here this morning.

[The material follows:]

July 20, 1989

The Honorable Clayton Yeutter
Secretary
U.S. Department of Agriculture
Washington, D.C. 20250

Dear Mr. Secretary:

Thank you for participating in the hearing before the Committee yesterday. As I mentioned during the hearing, I do have questions for your response, which will be included in the hearing record.

As you know, the Department of Agriculture expects to provide approximately $900 million in commodities, including bonus commodities, for the school feeding programs this year. This represents only about 20% of the total funds provided by the Department for these programs. I have been informed that there are several proposals being considered to further reduce this level of commodities and adopt a cash or commodity letter of credit system for the school lunch program, either in whole or in part.

I will appreciate being advised of your thoughts on this matter. There are already several sites that currently operate cash or commodity letter of credit projects. Is there any intention on the part of the Department to support expansion of these projects?

I support the commodity distribution programs. These programs serve a dual function: to support agriculture, especially the surplus removal activities of the Department, and to provide assistance to needy families and individuals. It is my hope that we can continue to maintain both goals of the commodity distribution programs.

Thank you for your consideration of this matter. With kind regards.

Sincerely,

Bill Emerson
Ranking Minority Member

DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20250

October 2, 1989

Honorable Bill Emerson
Ranking Minority Member
House Committee on Agriculture
Subcommittee on Domestic Marketing,
  Consumer Relations, and Nutrition
House of Representatives
Washington, D.C. 20515

Dear Bill:

Thank you for your letter regarding the Cash-in-Lieu of Commodities and Commodity Letter-of-Credit (CLOC) Programs.

Congress is considering extending the authority necessary to operate CLOC and cash sites beyond December 1990. The U.S. Department of Agriculture (USDA) supports the extension of the CLOC projects through September 30, 1992. Though we are not a proponent of extending the cash portion, if Congress chooses to do so we will accept the extension as a compromise in dealing with this issue.

We recognize the present structure of the CLOC projects may not be as responsive to the purposes of the commodity program as it could be. If the CLOC projects are extended, we are planning to take steps to review their operations to assure they not only provide nutritious foods for the National School Lunch Program but also meet the goal of supporting American agriculture.

Sincerely,

Clayton Yeutter
Secretary

Mr. EMERSON. I want in the brief time here also to comment. One of our colleagues here this morning took you somewhat to task for making a statement that there was no evidence of discipline coming from this institution. And you know that is a two-way street. You know I was thinking when our colleague was saying that of a line that I tell my constituents at home when they are telling me that the budget is out of whack. It is a fact that Presidents and Cabinets cannot spend a solitary nickel that is not authorized and appropriated by the Congress of the United States. You know we can sit down here and point the finger at the President and the Cabinet a lot and somehow that is very objective, but when somebody in the administration or a President says something about the Congress that is being very narrowly partisan.

And I just want you to know that I as one member of this committee and as one Member of Congress think that business about fiscal discipline is a two-way street, and maybe nobody should be pointing the finger, one toward the other. As for institution bashing, if one had sat in the House of Representatives the last 8½ years as I have and listened to the process that we call "1-minute's" in the House, one would certainly understand that institution bashing, if anything, a one-way street was the Congress directed toward the Presidency rather than the other way around.

And I somewhat regret that we get into these kinds of nit-picking here in this committee when we have you down here with all the demands upon your time as opposed to addressing the larger issues that you have come here to discuss with us, and with which I hope over the course of the next 4 years we will have with you a very cooperative relationship. I have felt as one Member of Congress when you were our Trade Ambassador and now that you are the Secretary of Agriculture that we do have a person who truly understands the issues, and I am delighted that you are where you are, and look forward to working closely with you in the years ahead. Thank you, Mr. Chairman.

The CHAIRMAN. I thank the gentleman. Mr. Dyson.

Mr. DYSON. Thank you very much, Mr. Chairman. Mr. Secretary, it is nice to have you here. We have quite the opposite situation on the Eastern Shore than my colleagues do out in the other parts of the country that are facing the drought. We have too much water.

Secretary YEUTTER. Yes.

Mr. DYSON. And although I suppose our water tables can sustain the water we are getting in probably for another year or 2 to make up for the almost 5 years of a drought that we experienced. But as I said, we have too much water and the excessive moisture is causing a lot of farmers—it is making them unable to plant crops that they would have planted in the late spring/early summer. And the disaster assistance bill that currently is before the Senate and you have addressed many times to many questions today will benefit us, too.

And your response to the questions on that is, of course, the crop insurance. As you know, crop insurance is not very popular in Maryland. And I would say to you for a number of reasons. I would hope that when Mr. English's subcommittee starts the hearings, I think in the latter part of September on that, the Department would be very receptive to trying to make changes so that this crop insurance can be at least a little more palatable to the people that we are trying to serve. In fact, I just want to point something out that was pointed out to me.

I understand that people who are involved in that, that farmers that had purchased the preventive planting crop insurance required, for instance, to plant a crop even if it is too late in the season for it to grow. Well, you can see the absurdity of something like that. It makes a cynic of me, and certainly of the very people that this committee tries to serve.

That is not my question though. I just want to put that plug in.

Secretary YEUTTER. I agree with you.

Mr. DYSON. I know that your position on that bill has been that it is a little premature at this point. I do not feel that way, and obviously this committee does not feel this way. And like the chairman, I think the committee has done the responsible thing, and I would hope that you would come to see the light, so to speak, as we go on.

Secretary YEUTTER. Let me just respond to that by saying in my judgment we are really very close at this stage. I think we are close to agreement on what the fiscal parameters are, and then it is simply a question of designing the program that will fit those fiscal parameters. I think what you have done, what is being worked on in the Senate, and where we are, are not that far apart.

Mr. DYSON. Thank you. I have another question. The 1985 farm bill stipulated that USDA allocate 15 percent of the surplus utilized by the Export Enhancement Program for the export of poultry, beef, pork, and other meat products. In fact, in 1987 with the help of that program, the United States became the leading world exporter of poultry with 26 percent of the market.

Now I understand that in 1988, only about 2 percent of the EEP supplies were utilized on behalf of meat products, and that, in fact, this year you anticipate no more utilization than that number that I just gave you. My question is: Why are you not meeting the figure? Are you going to try to correct the discrepancy?

Now I understand that, I guess a sale recently was made or was concluded with Iraq and that involves about what is it—5,000 metric tons of poultry, which is good. But we have a tremendous market out there that I think we can reach if we can get the help from USDA in doing that. I will wait—is it Mr. Crowder that——

Secretary YEUTTER. Yes. I will ask Secretary Crowder to comment specifically if he can do so. I would simply add a broader response to the effect that what we are trying to do now, Mr. Dyson, is carefully follow the criteria that have been delineated for operating that program.

Our judgment is that that did not always happen in the past, and that is not a commentary on this specific EEP at all. But we believe the program has to be operated in a credible fashion. So we are making sure that whatever the proposal be, poultry or anything else, that it fits within the criteria. But I will ask Secretary Crowder if he can comment specifically.

Mr. CROWDER. A couple of comments on that. I do not know how broadly you are defining poultry, but we recently announced an initiative for eggs to Hong Kong, which affects the poultry industry. Second, I have met once with representatives of the poultry industry, and I have another meeting scheduled in the next week or so to talk about poultry EEP's and how they meet the criteria and what the industry objectives as well as ours are. So we have asked the industry to come back to us with a couple of items, they have, and we are in the process of looking at that now. And, as I say, we have another meeting scheduled with representatives, I believe the week after next.

Mr. DYSON. Thank you, Mr. Chairman.

The CHAIRMAN. I thank the gentleman. I guess my major question, Mr. Secretary, is when are you going to move more chickens?

Secretary YEUTTER. Yes.

The CHAIRMAN. And turkeys. You know I am a great advocate of turkey wings and turkey legs. Shoot, you can feed a whole family with two turkey legs. I just grilled some the other day for the Fourth of July. Smoked the turkey legs.

Secretary YEUTTER. Delicious.

The CHAIRMAN. They are better than watermelon, not that I want to knock watermelon. [Laughter.]

Secretary YEUTTER. Yes.

The CHAIRMAN. And turkey wings are the same way. The grilled turkey wings with Texas barbecue sauce with chili and tortillas, and there you have your recipe for lunch. [Laughter.]

Mr. Holloway.

Mr. HOLLOWAY. Mr. Secretary, thanks for being here. Most of my questions have been asked pertaining to the drought relief, but my problem is quite the same. I have many parishes in my district that have had over 50 inches of rain since May 5. I know you do not handle cemeteries, but normally we bury people flat on top of the ground in the Louisiana. Well, even our graves are floating out there. So we have a tremendous problem with rain in Louisiana.

I guess on the drought relief bill, my basic question would be, and I hope we can get away from having one of these every year, but the preventive planting clause of it is very, very important for my soybean farmers. We estimate about a 35-percent loss in the soybean crop of our State.

So I guess I would just ask, since you have had many questions already on that line, that you would not recommend a veto of this bill if we can get it down to where it will be revenue neutral, which we have to do.

Second question, and it has pretty well been gone over, is, of course, the Crop Insurance Program, knowing that we have to do something in order to get our farmers back into it, whether it be letting them provide their own yield, or letting a parish provide a higher yield or whatever we have actually come to. I have areas where corn was not grown and now is grown, terrible yields that no one can live with. But since you have pretty well answered that, I think we will be addressing that here.

The other question I would like to ask you is on a higher U.S. dollar. What is it going to do to us on exports of ag products that you foresee in the immediate future?

Secretary YEUTTER. A higher dollar, without question, really hurts us because we sell so many commodities. That is, largely we do not sell brand name products, value-added products where we can market their distinguishing features and try to sell in the face of that higher cost. We sell soybeans and corn and sorghum and a lot of other bulk products which do not bare brand names or added value, and that makes price the determining factor. We cannot sell quality, and we cannot sell service and specific marketing techniques.

We have to match prices around the world, and the high dollar makes that much more difficult. Fortunately, the dollar has begun to turn around, from our standpoint. There are downsides to others, but from our standpoint, it is beginning to go back down a bit now. If our interest rates continue to go down, that may bring it down some more. So that will be helpful to us.

But as you may have seen some of the figures on the trade deficit yesterday. There is a widening and that is probably at least partially attributable to exchange rate movements, although it is difficult to estimate the lag times involved in that area. But agriculture has a lot at stake in making sure that our dollar does not go into the stratosphere as it did earlier in the 1980's, and that is what caused a great deal of the economic trial in American agriculture and we ought to try not to experience that again.

Mr. HOLLOWAY. Going back to what you just spoke of, the export differential we have is so great, in particular with Japan, and I know you have fought that problem with them from year to year in your previous job. But we in my opinion, we should be the big player in this deal, and I still do not see how we can allow them to have any differential in tariffs whatsoever with us because of a $4-billion advantage they had just yesterday in 1 month.

I just do not see how we can allow them as a country, as people, and they depend on us. No matter how we look at it, we are the only country that almost could self-sustain themselves. And how we let the Japanese beat up on us still I do not know. And it is a problem to me I wish that we could pass on and continue to address. I hope Ms. Hill will continue to address that issue, and pretty much to say this is the way it is. It is stacked and we are going to do something. Somewhere we have to retaliate or something to the point of letting them know we cannot stand a $4 billion deficit and them having tariffs on ag products and other things.

Secretary YEUTTER. Well, on agricultural issues, Mr. Holloway, we have really made a lot of progress with them, and as you know, our exports into Japan are rising dramatically at the moment. Rice is a major agricultural controversy we still have with Japan. But our trade deficit problems lie much more on the industrial side, and those are more structural kinds of questions than they are tariffs. Overall, tariff levels in Japan now are lower than they are here in the United States, so it is schemes other than tariffs that really account for that deficit, and we have to try to get at those.

That is what is behind the recent effort that was announced by President Bush calling on Secretary Brady and others to lead what he calls a structural negotiation with Japan. That is the intent to get at some of these. Part of them are nontariff barriers, but it is deeper than that in structural relationships between and among companies and other things that also impede trade. We just have to keep working away at those.

The CHAIRMAN. I thank the gentleman. Mr. Penny.

Mr. PENNY. Thank you, Mr. Chairman. Secretary Yeutter, do you feel that converting our Sugar Program from quotas to tariffs would be a way of getting around the latest ruling by the GATT?

Secretary YEUTTER. Yes, that would be one way to do it, Mr. Penny. There are probably some other ways, too. Secretary Crowder and others have been working on that internally, but certainly we could set tariffs, set them at very high levels and be in compliance with the GATT.

Mr. PENNY. Then as we look to the next farm bill, I was pleased to see that you acknowledge we have to get a multilateral agreement about reduction of trade barriers and quotas and trade subsidies. But you stop short of saying that we have to do anything unilateral.

Whatever we do at the basic structure of farm policy, is it your view that we are going to have to keep targeted export and export enhancement programs in place until we have in place that international agreement on trade subsidies?

Secretary YEUTTER. Absolutely. In my judgment, we should not make unilateral concessions between now and the conclusion of the Uruguay Round. We need to sustain as much negotiating leverage as we possibly can in all facets of our farm program until that exercise concludes.

Mr. PENNY. I also wanted to get back to the Farmers Home Administration for just 1 minute. You made reference in your testimony to converting Farmers Home loans to a guaranteed loan system. Am I to assume that means that you would like to eliminate all direct loans and all loan subsidies within that agency?

Secretary YEUTTER. Not necessarily, Mr. Penny. As you know, there has been a trend in that direction for the last several years related very heavily to budgetary considerations. There is just a much lower outlay involved in guaranteed loan programs than there is in direct loans. But this is a personal response because we have not formulated an administration response in the next year's budget, but my personal response would be that we probably want to retain some flexibility to do direct loans in certain situations.

Mr. PENNY. Have you looked yet at the kinds of cost savings that we might incur if we basically phase out direct loan programs and the existing interest subsidy programs?

Secretary YEUTTER. They would be very substantial, very substantial. That is a multibillion dollar program, of course.

Mr. PENNY. Well, frankly, I think that trending in that direction is the appropriate thing to do, and it is one area that I would be interested in working with your Department in developing as we try to put together the next farm bill.

Secretary YEUTTER. I would be pleased to do that because it seems to me, Mr. Penny, that that is an area of potential budgetary savings that has not received as much attention as it deserves. This committee has been struggling to find other ways to save $600 million when we have multibillion dollar loan programs that have a major impact on this total situation.

Mr. PENNY. Well, I generally concur with your view as well that the loan guarantee will still help us to attract loan assistance to certain farmers that may have difficulty on their own.

Secretary YEUTTER. Yes.

Mr. PENNY. But it is questionable whether we ought to be operating an extensive program of lower interest loans for any segment of the farm population which only puts them in a competitive advantage as compared to other farmers that have to get commercial rates. And by putting them through the private sector to secure those loans with the Government standing behind with a loan guarantee, it seems to me would give them an edge in terms of getting loan assistance but not necessarily a financial edge in terms of the kind of repayment that is requested of them.

Secretary YEUTTER. That is certainly true, and we also need to graduate those borrowers at some point in time, too. One of the problems that has emerged in recent years, Mr. Penny, as a result of the difficulty in foreclosing those loans due to lots of lawsuits and other actions is that many of those loans have been in default for years and years and years. And, I sense increasing frustration on the part of farmers who have to compete against fellow farmers who have not made loan payments for a long time.

Mr. PENNY. And one last point, if I might, Mr. Chairman. I want to express my appreciation. A couple of your staff people were up to visit with me and several other members including Mr. Madigan about ARCC, the Ag Research Commercialization Corporation. It looks to me like there is a meeting of the minds on this issue, and within the foreseeable future, I think we are going to have the Members of Congress who are involved in that in sync with your Department and hopefully with the White House and we appreciate your interest and your support.

Secretary YEUTTER. Excellent.

The CHAIRMAN. I thank the gentleman. Mr. Herger.

Mr. HERGER. Thank you, Mr. Chairman. Mr. Secretary, good to see you.

Secretary YEUTTER. Thank you.

Mr. HERGER. I just want to thank you and your staff for all the great work that you have been doing so early in your tenure. I also would like to mention that in our area of California, northern California, I am hearing, as I think most of the members from throughout the agricultural areas in our Nation are, that in general people support the 1985 Farm Program. We feel that it has been working very well and I think the fact that we have been able to move down from some $26 billion in farm support to $12 billion or so certainly is an indication that we are again gaining markets abroad that we had lost at one time.

One matter, however, that I have heard some concern in our area particularly has been that of the swampbuster provision in the 1985 farm bill, specifically dealing with the wetlands determination. I have spoken with a number of growers in our area that have been concerned about manmade drainage ditches that perhaps they wanted to move in order to make their farming operation a little more economical and efficient, but they have had problems in this area.

We would really appreciate some comments you might have regarding what we might do through the ASCS or perhaps in writing the next farm bill that might help correct that.

Secretary YEUTTER. I have heard some of that too, Congressman. I will ask Secretary Crowder whether he has anything to offer on that subject. As Secretary Crowder said earlier, we really need to have some rules of reasonableness in those kinds of areas and I hope we can have. That is a controversial issue for lots of folks with very difficult balancing between the interest of the farmer and his production operations and the interest of people who have environmental concerns as the primary question.

But, Dick, any comment?

Mr. **CROWDER**. I think you summarized it pretty well: One, it is controversial and two, there are procedures in place for appeals in the process to come up through, and we are willing to consider the appeals. But as you look at those, there are people on both sides of this issue, and it is a very sensitive issue.

Mr. **HERGER**. I wanted to make you aware of that. Also, there has been some concern that those who have received notification of these declarations of wetlands many times have been the ones who were farming and not always those who are the landowners. Sometimes they were leasing the ground. I have heard some concern from the landowners that they were not aware that certain areas were designated as wetlands. Could something be done in this area to make sure we are sending notices, again, not only to those that are actually doing the farming, but to those who are the landowners?

Secretary **YEUTTER**. We will check with our ASCS people on that.

Mr. **HERGER**. Thank you very much.

Secretary **YEUTTER**. Sure.

The **CHAIRMAN**. I thank the gentleman. Mr. Lancaster.

Mr. **LANCASTER**. Thank you, Mr. Chairman, and thank you, Mr. Secretary, for being with us this morning. Mr. Secretary, I remain concerned about the policy that appears not only to sanction but to actually encourage ethanol dehydration in the Caribbean. As a supporter of the CBI, it concerns me that this facility really is not of help to their economy. It is simply refining wine that comes from Europe, rather than processing commodities produced in the Caribbean.

We are building, we hope, a large ethanol facility in my district, and I certainly do not want that effort undercut by what I see as a bad policy on the part of our Government to encourage this. I wonder if you would respond to that?

Secretary **YEUTTER**. I will say amen, Mr. Lancaster. I fully agree with you, and I made that statement to some of our friends in the Caribbean when I was down there as early as 2 or 3 years ago. There are not many jobs involved with that kind of an activity. And if our intent is to improve the economies of the Caribbean, that is not a very propitious way to do it. There are a lot of other ways to generate a whole lot more jobs.

Mr. **LANCASTER**. But is there not something our Government can do other than your statement a couple of years ago that it is a bad idea?

Secretary **YEUTTER**. Well, as you know, the difficulty in dealing with that question both here on the Hill and within the administration is that everyone is searching for ways to be helpful to the Caribbean and even when ideas like this one that are not very helpful come up, no one wants to be in the position of being negative on projects for the Caribbean. That leads to dubious analysis sometimes and that is what we face on this particular question. I hope we can work our way out of this and focus on some issues in the Caribbean that make more sense than that one does.

Mr. LANCASTER. In the past, our research efforts have mostly focused on increasing yields. In the 1990 farm bill, should we change that focus? That is, instead of continuing to build yields, should we focus on minimizing inputs and cost of production?

Secretary YEUTTER. Yes. That was a point that I made earlier here this morning, Mr. Lancaster. I have felt that way for a long time, for years, that we have tilted the emphasis. This is not to say that we should stop all yield research. No one would suggest that. It becomes a question of emphasis and priorities. And it seems to me that we have devoted too little attention to determining ways to reduce our per unit cost of production.

Mr. LANCASTER. Everybody including you, Mr. Secretary, talks about the need for flexibility in farm programs. And I am all for that, too. But I wonder if there are not dangers. The first year that we have full flexibility and everybody plants corn, the price will go through the floor, and farmers are going to be screaming at you and the Congress for allowing that to happen. So how can we build in flexibility but at the same time protect the integrity of our farm programs that have, in my opinion, done a good job in balancing the supply and demand for our commodities?

Secretary YEUTTER. Superb question, and one that should command a good bit of your attention and ours as we develop the 1990 farm bill. Secretary Crowder and his committee will spend considerable time on that very issue.

Deputy Under Secretary Campbell testified at either this committee or the Senate side—I have forgotten which—recently, articulating a whole variety of ways in which flexibility has been provided over the last 15 or 20 years. You might want to peruse his testimony because it was the best summary I have seen on that issue done by anyone. It was outstanding.

What that testimony indicates, Mr. Lancaster, is that there are a variety of ways to do this, most of which have been tried at one time or another over the last 15 or 20 years. It seems to me what we need to do is search through all of that, analyze the pros and cons, try to appraise why those methods were not retained, and see if we cannot pull the best out of all of that to respond to the question that you have raised.

You are right. We may not want to go all the way. That may not be either feasible or desirable, but if we are going to constrain back from that into something that is more flexible than we have today, but not all the way to total flexibility, where should we stop and how should we design it? I think we have a broad range of options with which to work. We just need to do a good job of assessing all of those and trying to come up with the most sensible way to handle that issue.

Mr. LANCASTER. Thank you.

The CHAIRMAN. I thank the gentleman. Mr. English.

Mr. ENGLISH. Thank you, Mr. Chairman. Mr. Secretary, I noted with a great deal of interest in your statement you make the point that 64 million people live in rural America but only 5 million live on farms. Of about 500 counties, which is roughly a fourth of all the nonmetropolitan counties of this Nation, even on that only about a fourth of those receive 20 percent of their income from farming.

But by the same token, of course, the economies of those rural communities either directly or indirectly are heavily dependent upon agriculture and their fate has been tied to that.

Secretary **Yeutter**. Yes.

Mr. **English**. And in the past, rural development has pretty much meant increased commodity prices if you are talking about better opportunities for rural development. I think that—would you agree that looking toward the future, say looking at the decade of the 1990's that there is going to be an even greater reliance of agriculture on the economic state in these rural communities? I am talking about—that may be somewhat diverse from agriculture itself so that there are jobs in town for the young people who want to do the farming or maybe during difficult times where they can obtain jobs and keep the family farm than what we have seen in the past?

Secretary **Yeutter**. I think it is going to vary a lot all over the country, Mr. English, which is what makes this whole rural development challenge so difficult for all of us. In my earlier testimony I mentioned that New England had confronted this challenge by small industries of various kinds and had done it very successfully.

As you go into the Southeast, I indicated how impressed I was with what South Carolina had done in shifting from agricultural production back into forestry and into developing tourism. So we are going to see different answers in different locations. It gets harder when you get out into western Oklahoma and western Nebraska, where I come from, and in some of those areas agriculture may really be the only answer.

That is how we generate greater agricultural income, but in some other areas, in a good many areas, we ought to be able to find ways to diversify those economies.

Mr. **English**. I guess the point that I am getting at is that it would appear that the two are becoming even more intertwined than at any time in the past. That if, in fact, people are going to have an option to live in a rural area as opposed to an urban area, they have got to have jobs in those communities as opposed to depending upon being a farmer.

So I guess, and if you look at agriculture, it is extremely dependent on those jobs and those communities these days. We have seen that in the 1980's. So I notice that this was the last issue that you brought up in your comments, and I was wondering where it is going to rank as far as your priority is concerned, say, next year or even this year? Does that start moving up and taking an equal footing with the agricultural aspects of the farm bill or of the Department of Agriculture?

Secretary **Yeutter**. Yes, it does move up. And it is perhaps unfortunate that it is the final issue that I discussed earlier this morning because that does not reflect my appraisal of priorities. We need to know more before we speak out on this subject, know more from our own internal studies, and know more by getting some more people focusing on this question so that we just do not have the blind leading the blind in this area, and so that we do not just repeat the rhetoric of the last 20 years.

As you know, there has been a lot of rural development rhetoric around for a long time, but not very much action. I hope we can get beyond the rhetoric and do something constructive and useful out there in those rural areas.

Mr. ENGLISH. Yes, that is exactly the point that I wanted to make. I would wholeheartedly agree with that. The question, I guess, that we come down to, we have also got a lot of programs that are available through the Department of Agriculture and elsewhere around the Government that supposedly are designed to help rural areas that are involved in rural development and so on and so forth, programs that some were designed years and years ago. I suppose some of them have been around 40 or 50 years.

Secretary YEUTTER. Yes.

Mr. ENGLISH. Is there something to be said in this time of scarce resources and during these times of difficulty of perhaps pulling all these resources together and trying to target our approach much more than this hit or miss hodgepodge of different programs that are kind of patchworked together as opposed to a targeted approach and one that perhaps we may even have to put limitations as to how and who these resources are directed to, the question of economic viability within a community, whether it has a real future and has an opportunity to provide the jobs and the economic base for rural areas?

Secretary YEUTTER. Yes. We are on the same basic wavelength, Congressman English, and somehow or other we have to get local people and State government people, our people out at the State level and county level worked into that process, too. And I am not sure yet how we can or should best do that. We need to focus on it some more. But I agree with your fundamental conclusion there. That is precisely what we need to do.

Mr. ENGLISH. Would it be your opinion that this should be a top priority item that both the Department of Agriculture and the Agriculture Committees of the House and Senate should accomplish during this Congress?

Secretary YEUTTER. Yes. The Senate, as you know, already has a rural development proposal that is likely to emerge in the relatively near future. We have some serious misgivings about certain elements of that proposal. In fact, quite a few elements of that proposal, and I hope we can do a better job on that issue here in the House.

Whether we do it in the context of the farm bill or do it separately, I could be persuaded either way. But I do believe there is room to put together a fundamentally sound rural development package that might do a lot of good out there in the country.

Mr. ENGLISH. Thank you very much, Mr. Secretary.

The CHAIRMAN. I thank both gentlemen. Let me mention—we have two more, Mr. Secretary—that the days of Lyndon Johnson, the one time he came down to my area for a little gathering they were having for me. And someone asked him about what was his governmental philosophy of life or what he wanted to achieve as President. He said very simply, a job for every person able to work;

a classroom for his child; and a decent home for his family. And a decent home includes water and sewerage, power, and telephone.

And that is what we want to do in rural America. The job, the house and the classroom.

Secretary YEUTTER. That is a good way to express it.

The CHAIRMAN. And if we give that a high priority, then we know the constraints on the funds, but we have the ingenuity to utilize every amount of funds that we have. We can get there. Mr. Nagle.

Mr. NAGLE. No questions.

The CHAIRMAN. We come back to Ms. Long, who has patiently awaited her second turn.

Ms. LONG. Thank you, Mr. Chairman. Mr. Secretary, I would like to ask you to address something. In your statement you say idling land shorts the market and raises unit production cost, thereby making us less competitive in world markets. That is absolutely true.

At the same time, when we do not idle land, we tend to have a surplus——

Secretary YEUTTER. Yes.

Ms. LONG. And the price for the commodities drops below the production cost, and farmers cannot operate at a profit. There are a whole host of dynamics that we have no control over or little control over that are going to affect whether farmers can operate profitably, and what I know you are trying to do and what we are trying to do is to develop a policy that is going to work for farming in the long run that will allow farmers to produce at a profit, a reasonable profit and to provide food commodities to the U.S. consumer at a reasonable price to provide for exports.

It seems to me that the only way we can do that given the resources that we have, and I am talking about in the next 10 to 20 years is to idle acres. And there are a number of approaches. We have just had a relatively successful tenure with one approach. I have never heard you address, and I think you have addressed it, I have just never heard you address the concept of idling acres by putting together some kind of Farm Program where we have a parity pricing mechanism not unlike the deficiency payment, but that in order for a farmer or a farm to qualify, they have to meet some minimum criteria of production.

In other words, we do not subsidize growing corn anywhere in the United States but only in regions of the country that grow well. By the same token, do the same thing with wheat. That is from a business standpoint very efficient because you have the best land producing. You will idle some of your good land, but for the most part you are going to not be using inefficient resources to produce something that we can produce much more efficiently elsewhere. Would you address that concept? What your feelings are on it? Whether you think it would work?

Secretary YEUTTER. Well, yes, complicated question, but let me try and answer for you. As to the land that a farmer would plant and what he would plant, I would rather see those signals coming from the marketplace, and I really believe those will come relatively accurately if we have flexibility in the way we structure our Farm Program.

In other words, one of the reasons that farmers plant a lot of corn now is not necessarily because the price of corn is more attractive than that of other crops, but because with the deficiency payment scheme as it is now designed, it turns out to be most advantageous to them. We can open up or provide greater flexibility as between whether a farmer plants corn, wheat, sorghum, soybeans, or whatever by changing the way we structure that deficiency payment-loan rate scheme, and in effect, we did that pretty well for awhile in the 1970's where there was a lot of flexibility and farmers did move according to the market, shift their production patterns according to the marketplace, and we did get more efficient production in my judgment then under that scheme than we do right now, which would be the response to your concern about doing it efficiently.

Now as to the other side of it which is idling land and providing a safety net. Land idling is a safety net for farmers. We may need some of that, and that is why I commented earlier to one of the other members that I would not favor removing that possibility or that option from our farm policy structure. But I would like to minimize our use of it because it hurts us in market share internationally.

There may be sometimes we need it. There may be sometimes we want to convince our trading partners to idle some land, too, at the same time we idle land. Because we can all then contribute to dealing with that surplus production issue, but I would like to minimize that if we could. Because what happened a few years ago when we had a major idling program, that was 1983, was that everybody else in the world just planted more. We idled about 80 million acres and everybody planted almost that much additionally. So all we did was hand market share on a silver platter to our competitors.

If we are going to idle land, we ought to do in a deliberate way and preferably worked out through negotiations rather than unilaterally. When we do it unilaterally we shoot ourselves in the foot. So there may be a place for land idling even though it clearly has some shortcomings as you mentioned. But we ought to try to minimize that. And if we can succeed in the international negotiations so that we open up greater market opportunities around the world, we ought to have a lesser need to idle land in this country because we ought to be able to get good incomes from our farmers without doing that.

I will just use beef as an example of how much difference this can make. I just talked to representatives of the beef industry last night, and they were commenting on the Japanese situation and the negotiations that we had last year, and we sometimes underestimate how important these things are. But, his comment was that that one negotiation is worth $2 a hundredweight on the price of fat cattle in the United States forever.

And he was pointing out that $2 a hundredweight often makes the difference between whether one is in the black or in the red. I am not sure that is a satisfactory answer to your question because it is extremely complicated. We ought to have some more discussion about it when we have time.

Ms. **Long**. Mr. Chairman, I know my time is up. Could I have 30 more seconds?

The **Chairman**. The gentlelady may proceed.

Ms. **Long**. I want to follow up on the idling of acres because we may determine that we have to do that, and by we, I am talking about the administration as well. If we were to determine that we needed to idle acres, should we not do it in a way that make more economic sense, which means that we do set some kind of minimum criterion before someone can participate in a farm program?

Secretary **Yeutter**. We want to evaluate what criteria you have in mind, of course, but I would certainly be open-minded on that question. I think one could build a case for that including environmental criteria totally aside from economic criteria. I suspect there will be debate of that as the next few months unfold, too. Sure.

The **Chairman**. Does the gentleman from Oklahoma desire more time?

Mr. **English**. If I could, Mr. Chairman.

The **Chairman**. The gentleman is recognized.

Mr. **English**. Mr. Secretary, I also wanted to ask you with regard to your statement on crop insurance, our subcommittee will have to deal with that later, and I notice with interest that you state in there that we must turn to one or the other, but not both. And I would wholeheartedly agree with that, but I was curious. Does that indicate a lack of real strong feeling either way as to which one it is? Do you just feel it is one or the other, and you are not really that concerned about which way we go?

Secretary **Yeutter**. I would say at this point without having read all the recommendations of the Crop Insurance Commission that my druthers would still be to have it tilt toward crop insurance. It seems to me that if we can develop a viable Crop Insurance Program, that is still the way to go. But I would not preclude the other option. In other words, if we go through all this analysis and conclude that crop insurance is just not salvageable, or perhaps more appropriately conclude that it just cannot do the full job, total job, then perhaps we should swing the pendulum in the other direction and see if we cannot design a permanent disaster relief structure in our Farm Program.

So I could be persuaded either way. But my preference at the moment would be to tilt toward crop insurance.

Mr. **English**. Well, then would you agree that the key, the key to whether we have a successful insurance program or whether we have to go to disaster, the real key comes down to participation?

Secretary **Yeutter**. Yes, absolutely.

Mr. **English**. So we have to come up with a program that would in effect bring in 70, 75 percent of the farmers of this country to make it a successful program and finally get us to the point that we have an insurance program we can live with without expecting that disaster is going to be there waiting.

Secretary **Yeutter**. Yes. I would certainly be willing to go that same way.

Mr. **English**. The cost in looking at some of the numbers, and I want to encourage you to do this, but the preliminary numbers as I understand it looking at what we have spent with the cost of the subsidy for the insurance program, what we have covered as far as costs to the insurance program as far as the Government is concerned for losses, plus what we spent for disaster, all that over, say, the last decade averaged out, basically puts us to the point that if we did raise that participation level up to, say, 70 or 75 percent, given all the subsidies and everything, it just about balances out whether you are going to be using crop insurance or whether you are going to be using disaster.

The cost to the taxpayer really does not make a whole lot of difference either way. And that may be where we can find the key. I would wonder, and I am not committing you to anything, Mr. Secretary—just want to get a first reaction—if there would not be some merit to be looking toward a program in which we would provide basic protection through the Crop Insurance Program, but make it a part of the benefit for the Farm Program? In other words, participants in the program would get a certain level of protection that the Federal Government would provide, would be the subsidy, with the encouragement and recognizing, then, that we would put those farmers in a position to go ahead and buy additional coverage, further protecting themselves because the cost would be less once we get over that basic, looking at the fact, of course, that this would not cost more than what we have been spending on an average in the last 10 years.

Secretary YEUTTER. Yes.

Mr. ENGLISH. Does that at first blush have some merit, do you think?

Secretary YEUTTER. I would certainly be willing to consider that or a lot of other possible applications of such a strategy. We certainly do need to decide what we can and should provide either in carrots or sticks in order to get that participation. One way clearly to motivate additional participation is to tie it in some way to our traditional farm programs.

It seems to me there is a very logical linkage between the two because if the American taxpayer is going to lay out billions of dollars in traditional price and income supports to cover price risk/income risk, then it seems to me the other dimension to that is yield risk, and it all fits together in a total package, if you will, a total risk management package for the farmer.

I believe that the Government is going to pick up a very substantial tab there, as we will, somewhere, somehow. Then it seems to me that we have the right to insist on organizing that package in some rational way.

Mr. ENGLISH. Mr. Chairman, if I could have just 30 seconds more? I think that is exactly right, and as I said the key comes down to two things, Mr. Secretary, and that is we have to have participation. That is the bottom line, and that is what any program is going to have to be judged by. In my opinion, we have to get up above 70 percent in order to have this program acceptable. And the second is this question of cost. I think a lot of people are going to find that hard to believe but when the figures are worked out, and if it does not make any difference costwise whether we use a carrot or a stick, I would much rather use a carrot.

I think that certainly that would be more desirable all the way around. So we will be looking forward to working with you on that, Mr. Secretary.

Secretary YEUTTER. I agree, and I would say that I believe our cost estimates are very comparable to yours, as we look at the historical patterns.

The CHAIRMAN. Thank you, Mr. Secretary. Following up on that, Mr. Secretary, in another area. It had been mentioned earlier today about cost of production and reducing cost of production in the agricultural sector. And as we sit here on top of this Hill, we can see all the way around. Many would look only at their slice of the pie geographically or whichever. I would like to caution you, like in reducing cost of production, the first thing you would think in agriculture, basically, is to reduce workers. That can be, and you have to equate and provide the necessary input for equity because they say mechanize, mechanize. So you are reducing workers. Well, that is fine, but we cannot get too terribly carried away with that because of its effect on migrant farm workers in my area. For example, you mechanize, you reduce the cost of production, and then you have to go get JTPA for job training and housing subsidy and food stamps and aid to dependent children subsidy, and you wind up spending more here than you gain by reducing the people working.

So we have to be cautious that we balance things because it causes problems sometimes when you go in one direction. We were in China once on one of those trips that we get criticized for. We were in a field and there were about 200 people working in this cotton patch. They were hoeing or weeding cotton. One of our colleagues not from the agricultural sector told a lady who was the head of that commune there that in our country one person on a tractor could do that in an hour. She replied very politely so could we. But if I did that what would I do with the other 199?

This is what we have to look at when we talk about the economic viability of rural America, is that we need labor-intensive operations either on the farm or off the farm in the rural sector so that we can provide the jobs and not have to subsidize their housing and their children and their income and retrain them. I would hope that when you put your minds together that you look all around you in this area.

Secretary YEUTTER. I could not concur more. I would just say that is why we need job diversification and other job alternatives out there in those rural communities so that those migrant workers have something else that they can do.

The CHAIRMAN. And that basically is it. Last Friday I was at Texas A&I, now a part of the Texas A&M land-grant system, or soon to be, on a seminar, an all-day seminar on pricklypear cactus. This is an area for diversification. Cactus in many areas of our country is a pest. As a matter of fact, I got a letter from a gentleman saying it was worse than screwworm. But the cactus as you know is in the drought bill. You can burn the spines off of it and use it for forage for cattle in extreme dire circumstances.

The little tender leaves we call "nopalitos." That is good for humans, and you mix them with a little onion and little tomato and a few spices and put in an egg and there you have it. They had a doctor there that testified to the merit of its fiber and how it may even positively impact on diabetes. The little tender cactus leaves of the cactus; and that is another way of diversification and that would be labor intensive.

We have gone and messed up your lunch hour. Another time, Mr. Secretary, I promise you the next time that I will fix some nopalitos and some turkey wings and we will have them waiting here for you.

Secretary YEUTTER. Mucho gusto.

The CHAIRMAN. With no further questions, we thank you very much for being here. We appreciate your concern, and your always responsible treatment of our concerns and certainly your availability to us at all times. That we very much appreciate and those that accompanied you.

Secretary YEUTTER. Thank you, Mr. Chairman. It has been a pleasure.

The CHAIRMAN. With that, I will—Mr. Madigan.

Mr. MADIGAN. Yes. If we have concluded, I wonder if the Secretary could join you and me at the dias for just a moment to talk about an unrelated item.

Secretary YEUTTER. Sure.

The CHAIRMAN. The committee will stand adjourned, subject to the call of the Chair.

[Whereupon, at 12:55 p.m., the committee was adjourned, subject to the call of the Chair.]

[Material submitted for inclusion in the record follows:]

STATEMENT OF
CLAYTON YEUTTER
SECRETARY OF AGRICULTURE
BEFORE THE
HOUSE COMMITTEE ON AGRICULTURE

JULY 19, 1989

Mr. Chairman and Members of the Committee, I welcome the invitation to appear here today to discuss the next Farm Bill. As you may know, last month I appointed a USDA task force for coordinating the Department's activity on the 1990 Farm Bill. We look forward to working with the Congress to forge a meaningful piece of legislation.

Before enunciating our preliminary ideas for next year's legislation, I would like to comment briefly on the Food Security Act of 1985. The 1985 Act was developed in response to large surpluses and uncompetitive prices that afflicted U.S. agriculture in the early 1980's. Those conditions arose from weak global economic growth and an inordinately strong dollar that damaged farm exports. At the same time, those troublesome farm conditions were exacerbated by farm legislation that was too inflexible to deal with changing macroeconomic policies here and abroad. High crop loan rates encouraged farmers to produce for storage while guaranteeing our competitors a profitable price floor in the global market. Predictably, the European Community and other nations increased production and exports while we idled acreage and built a mountain of stocks. U.S. exports and world market share plummeted.

Restoring export growth became a central objective of the 1985 Farm Bill. The 1985 Act reduced loan rates and tied them to market prices, making them more responsive to market conditions. This signaled to our competitors that the United States was determined to regain our international competitiveness and recapture market share. We would no longer underwrite production expansion around the globe.

To boost exports further, the 1985 Act provided for a number of export assistance programs. In conjunction with the new provisions of the 1985 Act, the Commodity Credit Corporation (CCC) used existing authority to provide increased access to U.S. supplies through the use of commodity certificates. Without the use of these certificates, large quantities of CCC-owned and producer-held stocks pledged as collateral for CCC price support loans would otherwise have remained isolated from the market. Authority for annual acreage reduction programs was included to help restore balance between supply and demand, but taking land out of production was not the primary focus of the 1985 legislation.

The cost of farm programs was a vital issue for the 1985 Act, for that cost had been climbing inexorably in the early 1980's. In fact, farm program outlays were the fastest growing component of the Federal budget. Adoption of the 1985 Farm Bill was expected to reduce costs in the long run by expanding exports, reducing stocks, and gradually lowering target prices.

The 1985 Act achieved many of its objectives. Our agricultural exports bottomed out at $26 billion and 110 million tons in 1986. This year, we expect to export 146.5 million tons of agricultural products worth about $39 billion. Stock levels are down dramatically, and our grain and soybean surpluses have disappeared. The drought contributed, of course, but expanded markets under the 1985 legislation were also major factors.

Farm financial conditions are much improved too. In 1988, cash farm income reached $58 billion, an all time high, and it may be close to that level in 1989. While government payments were instrumental in this income growth, they are becoming a smaller portion of cash farm income. The net worth statements of farmers have received a big boost, and that has improved the financial position of their creditors too. Total farm debt has declined to about $140 billion, compared with $193 billion in 1983. Land values bottomed out in 1986, increased by 3 percent in 1987, 6 percent in 1988, and are expected to increase again this year.

This adjustment was not without cost, however. The increase in outlays for commodity programs was not arrested until FY 1987, after reaching a record $25.8 billion in FY 1986. Over the last two years, outlays have been in the $10-15 billion range, still very high by historical standards. Under current programs, our budget analysts foresee outlays slowly declining, over the next several years but remaining in that $10-15 billion range. We must ask ourselves whether annual outlays for price and income supports at levels significantly above the long-term average are defensible to the American taxpayer.

Mr. Chairman, this Committee knows well the budget constraints facing the 1990 Farm Bill. The Gramm-Rudman-Hollings balanced budget law requires that the Federal budget deficit be reduced to $64 billion in fiscal year 1991, $28 billion in 1992, and zero in 1993. We know how difficult it has been to achieve the targets in recent years, but future targets will be even harder to hit, particularly if we experience a slowdown in U.S. economic growth.

As we formulate farm policy for the 1990's, we should also keep in mind how quickly budget outlays can rise, particularly if the law builds in potential budget exposure. This is a major drawback of current farm legislation. There is a direct connection between production levels and budget exposure. To reduce budget exposure, we traditionally idle land. But idling land shorts the market and raises unit production costs, thereby making us less competitive in world markets.

Our competitors relish that situation, knowing that we have often handed them market share on a silver platter. Agricultural policies that might make sense in an isolated market do not make sense in a global marketplace. It is the latter which prevails today. As we look toward formulating new farm legislation for the 1990's, we must begin to break the link between price/income supports and production. Otherwise, we will give away our foreign markets in the 1990's, much as we did in the early 1980's.

Worldwide agricultural subsidies plus the cost to consumers resulting from protectionist policies now total about $150 billion yearly. The Uruguay Round of multilateral trade negotiations offers a means to reduce these costs and to enhance the economic well being of agriculture, both at home and abroad. We now spend enormous sums of money to counter, directly or indirectly, the farm policies of competitor nations. If we can convince them to change their policies over time, we can also afford to change ours. Production decisions would then be based much more on market conditions than they are today, and much less on the whims of governments. That would be a desirable change, and one that would be particularly welcome by taxpayers everywhere, including U.S. farmers.

In some nations, consumers now bear much of the cost burden of distortive farm programs. If that can be changed, they too will save a great deal of money, and the overall demand for food will rise. Changes of this nature should clearly enhance our export prospects, providing we take steps to make sure that we are internationally competitive.

During the GATT negotiations in April, a significant "framework" agreement to reform agricultural trade was reached among the major trading nations of the world. Essentially, that agreement commits the GATT parties to "substantial progressive reductions in agricultural support and protection." We and other nations are now developing proposals to achieve those objectives. Last week, Under Secretary Crowder was in Geneva, where he presented our proposal to convert agricultural non-tariff measures to tariffs. In the next few months, we will be submitting other proposals on the reform of domestic support programs and export subsidies.

We do not know the probability of success in the Uruguay Round. We do know, however, that it merits our best shot over the next 18 months. This is the first time in 40 years that we've been able to get agriculture on the front lines of a multilateral negotiation. As we formulate the 1990 Farm Bill, we should recognize the importance of supporting our GATT negotiating team. If we fail to achieve significant agricultural trade reforms in the Uruguay Round, we are not likely to have another opportunity until the next century. Confrontations in the intervening period will inevitably cost us billions of dollars.

A primary objective for the price and income support programs of the new farm bill should be to reduce the rigidity of present programs. In the early 1980's, we learned how costly it can be to design programs based upon assumptions and expectations. Programs for the 1990's that turn out to be based upon erroneous presumptions should be adaptable enough to deal with any eventuality, whether it be surplus or shortage. The proper way to achieve such flexibility is to allow producers and consumers greater freedom to respond to market signals.

In recent years, farmers have often been locked into production situations unresponsive to shifts in market demand. For example, participation in the corn, wheat, cotton, and rice programs has been 80-90 percent over much of the 1980's. Once producers sign up for these programs, the base acreage is largely committed to either the program crop or a cover crop. As a result, the acreage available for other crops that may be in short supply is limited. Thus, our producers are artificially denied these new market opportunities, and foreign producers take advantage of them.

Our production rigidities encourage foreign production expansion just as effectively as did high loan rates in the early

1980's. U.S. soybean acreage has fallen from 71 million acres in 1982 to an average of 60 million acres in recent years. However, soybean acreage in the major producing countries of South America has risen from 25 million to 40 million during that same timeframe. Increased program flexibility would allow U.S. producers to grow more soybeans, oats, wheat, and other crops that are now in relatively short supply.

How can we best increase planting flexibility? Some suggest that producers should simply be allowed to shift their base acreages among program crops. But if each crop's target price payments continue to be tied to that crop's planted acreage, the result will simply be a migration of base acreages toward crops with relatively higher target prices. Program outlays would rise, but we might get no production response for crops in short supply, and it is conceivable that we could even get a production decrease. That would leave us worse off than we are today. If this type of flexibility is pursued, some realignment of target prices would be necessary. Present target prices tilt production in ways that do not always reflect underlying economic fundamentals.

Other proposals would limit target price coverage to existing base acreage, or some portion of it, and allow producers freedom to plant a variety of crops on the remainder of their land without losing base acreage. These proposals merit further exploration. The so-called "triple base" is only one example of this approach.

We do not view planting flexibility as a "back door way to cut target prices," as some have labeled it. While budget constraints must be addressed in any 1990 legislation proposals, greater flexibility should be achieved because it is the right thing to do. It should give us a greater return on Federal tax dollars, enhanced economic efficiency, improved international competitiveness, and environmental benefits.

Stocks policy is another area that needs to be reexamined. In the past, it has been easy for the government to accumulate large stocks and difficult to disperse them. Stocks have often accumulated at the same time that we have lost market share globally. Current farmer-owned reserve release prices are unrealistically high. Corn and wheat reserves were not even triggered during the 1988/89 marketing year, despite the large production decline due to drought.

In addition to the reserve policy, appropriate storage levels and financing need to be examined in the context of global demand. The past several years have demonstrated how quickly global stocks can build or dissipate. Sufficient stocks are required to fulfill the fundamental policy objective of having adequate food supplies and being reliable suppliers to the world.

At issue is how much should be held by the private sector and how much by government, or with the stimulus of government financing. In the past the government has absorbed most of the cost of holding stocks. For example, in FY 1987 outlays for producer and government-held storage totaled $2.2 billion. We should be able to design a stocks policy with a lower price tag.

Related to the stocks issues is the issue of export subsidies, in particular the Export Enhancement Program (EEP). Because of our commitment to reform agricultural trade, we need the EEP as leverage. We have been carefully assessing past performance of the EEP and developing guidelines for its future use. These guidelines will result in the selection of commodities and countries which will best achieve our trade policy objectives and promote long-term export growth.

We must also address some of our non-target price commodity programs. Those programs will be facing increased scrutiny from other nations. As you know, the administration of our sugar quotas under the so-called "head-note authority" has already been found to be GATT inconsistent. Alternative programs are already being proposed by both producer and consumer groups. Unfortunately, some of them revolve around production controls. We want to discourage such proposals from the outset. Overall, production controls undermine our competitiveness--the strength of American agriculture.

Another area that should be addressed in the upcoming legislation is that of yield risk. Last fall, the Congress established the Commission for the Improvement of the Federal Crop Insurance Program. Its charge was to recommend improvements in Federal crop insurance so that other forms of disaster assistance would not be hecessary. It is clear that we cannot continue with annual ad hoc disaster bills superimposed on crop insurance. We must turn to one or the other, not both. Ad hoc legislation obscures the division of risk between the government and the producer and undermines the Federal Crop Insurance Program. The Commission has recently agreed upon its recommendations, and our review is underway. We will share our further views with you as soon as we are ready.

Much of this testimony has focused on price and income support programs and related activities. However, the majority of next year's farm bill debate may well deal with areas other than price and income support.

Food safety and contamination continue to be a growing concern to the public. Microbial standards for food borne diseases and residue standards for agricultural chemicals will be areas of concern for future legislation. Although the United States has the safest food supply in the world, we must improve on our record and communicate our commitment and our achievements to consumers so that they are reassured by inspection programs. We have organized a coordination committee within the Department in order to respond promptly to food safety issues. This committee is headed by Deputy Secretary Parnell.

Together with other Federal agencies, we are now examining the issue of consistency of negligible risk thresholds and pesticide tolerances for raw and processed agricultural products. If firm thresholds are established for all products, a critical issue is how costs and benefits would be used to establish tolerances. Clearly, our overriding concern is to protect human health. But we also believe that the safety benefits of new standards must be weighed against the higher costs of food and potential adverse effects on food availability and quality.

Environmental issues are a top priority too. The Conservation Reserve is working well to help protect our soil, one of our Nation's most valuable resources. To date, nearly 31 million acres have been enrolled, with annual soil savings already estimated at over 600 million tons. Given the current tightness in some crop supplies, such as wheat, and the uncertainty of future market conditions, we should carefully evaluate whether to further expand this program. Unless it is redesigned, additions to the reserve will be increasingly costly.

Water quality is another environmental issue that should receive considerable attention in the farm bill debate. Concern continues to grow about the presence of agricultural chemicals in groundwater supplies. Some form of groundwater protection has been enacted in 35 states. At issue is how producers can prevent ground water contamination while continuing economically to produce abundant supplies of food and fiber. We have proposed an initiative for the FY 1990 budget to conduct research and education to help farmers use pesticides in a safe and efficient manner. The areas of low input sustainable agriculture and best management practices will also receive close examination as a means of addressing groundwater quality.

Although the situation is greatly improved from two years ago, farm credit continues to be an issue of major importance. Loan delinquencies, loan charge-offs, and property acquisitions have declined for commercial banks, the Farm Credit System and insurance companies; and loan volumes have stabilized. This improvement reflects the strengthened financial position of U.S. farmers. Of chief concern now is the Farmers Home Administration (FmHA) where the volume of delinquent loans and loan charge-offs continues to rise. The FmHA is currently restructuring its delinquent loans in accordance with the 1987 Credit Act.

As we look to the 1990 Farm Bill, we should reexamine the goals of our credit programs. The Federal Government has greatly subsidized farm production through a wide array of interest rate subsidies and debt write downs. Some farmers have been heavily subsidized borrowers for many years--often at interest rates half those of their neighbors. Should our long-term goal be to continue intervening in farm credit markets with billions of dollars in federally subsidized credit? Or, do we want to move toward greater reliance on private credit markets, using government guarantees in the transition? In these times of budget constraint, we should ask if we can truly still afford the kinds of credit programs that were conceived when farmers did not have adequate access to national credit markets.

Rural development is yet another issue that should command our attention. Sound agricultural policies certainly benefit rural America by increasing rural economic activity. But one must remember that 64 million people live in rural America, but only 5 million live on farms. Only about 500 counties--about a fourth of all nonmetro counties--obtain at least 20 percent of their income from farming. The broad challenges of rural America stem from declines in resource-based industries such as mining, forestry, and energy extraction as well as farming, and from declines in goods-producing industries. Policies that promote economic diversification, encourage education and training programs, and generate research and information related to rural development will benefit all sectors of rural America. We continue to need more creativity and imagination in this area.

In closing, Mr. Chairman, we look forward to working with the Committee in the development of 1990 farm legislation. We appreciate the invitation to these early hearings to get the process underway. It is in everyone's best interest to pass the new farm bill as quickly as possible. I would be happy to respond to any questions you or other members of the Committee might have.

STATEMENT OF THE HONORABLE WALLY HERGER
HOUSE AGRICULTURE COMMITTEE
JULY 19, 1989
THE 1990 FARM BILL

THANK YOU, MR. CHAIRMAN.

I WOULD LIKE TO COMMEND THE CHAIRMAN FOR HOLDING THIS HEARING HERE TODAY. I AM LOOKING FORWARD TO HEARING THE TESTIMONY OF SECRETARY YEUTTER, AND WOULD LIKE TO COMMEND YOU FOR YOUR OUTSTANDING JOB SO FAR AS SECRETARY OF AGRICULTURE.

THIS IS AN IMPORTANT TIME FOR THOSE OF US WHO REPRESENT AGRICULTURAL REGIONS OF THIS GREAT NATION. WHILE THE PAST DECADE HAS SHOWN FARMERS SOME INCREDIBLY HARD TIMES, I AM OPTIMISTIC ABOUT WHAT LIES AHEAD FOR AGRICULTURE IN THE 1990'S. THE FOOD SECURITY ACT OF 1985 HAS BY AND LARGE BEEN REGARDED AS SUCCESSFUL IN HELPING IMPROVE THE SITUATION OF OUR FARMERS. AS SUCH, I BELIEVE THAT

THIS IS THE FOUNDATION UPON WHICH WE MUST BUILD ON WHEN DRAFTING THE 1990 LEGISLATION. I WOULD LIKE TO STRESS, HOWEVER, THAT WE IN THE AGRICULTURE COMMITTEE NEED TO CONTINUE TO WORK HARD TO IMPROVE UPON THE 1985 ACT WHEREVER POSSIBLE.

WHILE THE CONVENTIONAL WISDOM IS THAT NO MAJOR CHANGES IN THE 85 FARM BILL ARE NECESSARY, THERE ARE SOME NEW CHALLENGES CONFRONTING AGRICULTURE WHICH WILL REQUIRE CAREFUL CONSIDERATION. FOR EXAMPLE, THE INTERNATIONAL TRADE SITUATION HAS BECOME MORE IMPORTANT THAN EVER, AND WILL CONTINUE TO BE FOR THE FORESEEABLE FUTURE. AS SUCH, I BELIEVE THE NEW FARM BILL MUST ENABLE OUR FARMERS TO MAINTAIN AND INCREASE THEIR LEVEL OF COMPETITIVENESS BOTH AT HOME AND ABROAD.

AGRICULTURAL EXPORTS HAVE MADE SUBSTANTIAL GAINS UNDER THE 85 BILL. IN THIS TIME OF HIGH TRADE DEFICITS, AGRICULTURE HAS BEEN ONE OF THE FEW AREAS IN WHICH OUR EXPORTS HAVE INCREASED IN

RECENT YEARS. THE TARGETED EXPORT ASSISTANCE PROGRAM (TEA) HAS BEEN INSTRUMENTAL IN ENABLING OUR FARMERS TO INCREASE EXPORTS. THIS PROGRAM HAS BEEN UTILIZED BY A WIDE VARIETY OF COMMODITIES, AND HAS BEEN ESPECIALLY SUCCESSFUL IN PROMOTING MANY SPECIALTY CROPS FORM CALIFORNIA IN FOREIGN MARKETS THAT HAVE BEEN ESPECIALLY HARD TO BREAK INTO IN THE PAST. I WOULD STRONGLY ENCOURAGE THE COMMITTEE TO CONTINUE THIS PROGRAM IN AN EFFICIENT AND EFFECTIVE MANNER UNDER THE 1990 BILL.

ANOTHER SUCCESSFUL ASPECT OF THE FOOD SECURITY ACT HAS BEEN THE MARKETING LOAN CONCEPT. I REPRESENT THE SECOND LARGEST RICE PRODUCING DISTRICT IN THE COUNTRY, AND THE RICE INDUSTRY IN CALIFORNIA GENERALLY IS OF THE VIEW THAT THE MARKETING LOAN HAS BEEN EFFECTIVE IN ENABLING RICE EXPORTS TO BECOME MORE COMPETITIVE IN INTERNATIONAL MARKETS IN RECENT YEARS. THE

CONTINUED IMPLEMENTATION OF THE MARKETING LOAN WILL HELP U.S. RICE PRODUCERS TO CONTINUE TO INCREASE EXPORTS IN THE 1990'S. WE NEED TO CONSIDER WAYS IN WHICH WE CAN MAINTAIN GOVERNMENT ASSISTANCE WITH THE MARKETING LOAN WHILE AT THE SAME TIME REDUCING THE COST OF THE PROGRAM TO THE TAXPAYERS.

AGRICULTURE'S IMPACT ON THE ENVIRONMENT IS ANOTHER AREA IN WHICH THERE WILL BE NEW CHALLENGES. WE NEED TO CAREFULLY CONSIDER HOW THE ENVIRONMENTAL OBJECTIVES OF THE NEW FARM BILL COULD POSSIBLY IMPACT FARMERS ADVERSELY AND THEN TAKE APPROPRIATE STEPS TO MITIGATE THIS IMPACT AND RECONCILE CONFLICTING INTERESTS. MANY OF THE FARMERS IN MY DISTRICT HAVE HAD PROBLEMS WITH THE IMPLEMENTATION OF THE WETLANDS CONSERVATION PROVISIONS OF THE 1985 ACT. AS SUCH, I BELIEVE THAT WE IN CONGRESS MUST PROVIDE THE NECESSARY LEADERSHIP THROUGH THE 1990 FARM BILL IN ORDER TO

MAKE OUR CONSERVATION EFFORTS FULLY COMPATIBLE WITH AGRICULTURAL PRODUCTIVITY.

MR. CHAIRMAN, THE DEVELOPMENT AND IMPLEMENTATION OF THE 1990 FARM BILL IS OF PARAMOUNT IMPORTANCE FOR MANY OF THE FARMERS OF MY DISTRICT. IT ALSO IS OF INCREASING IMPORTANCE TO OUR SOCIETY AS A WHOLE, AS THE HEALTH OF OUR AGRICULTURAL SECTOR BECOMES MORE AND MORE VITAL TO THE OVERALL PERFORMANCE OF OUR ECONOMY. AS SUCH, I LOOK FORWARD TO WORKING WITH YOU, MY COLLEAGUES ON THIS COMMITTEE, AND SECRETARY YEUTTER IN CRAFTING NATIONAL FARM POLICY THAT WILL CONTINUE AND BUILD ON THE SUCCESSES OF THE 1985 FOOD SECURITY ACT.

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